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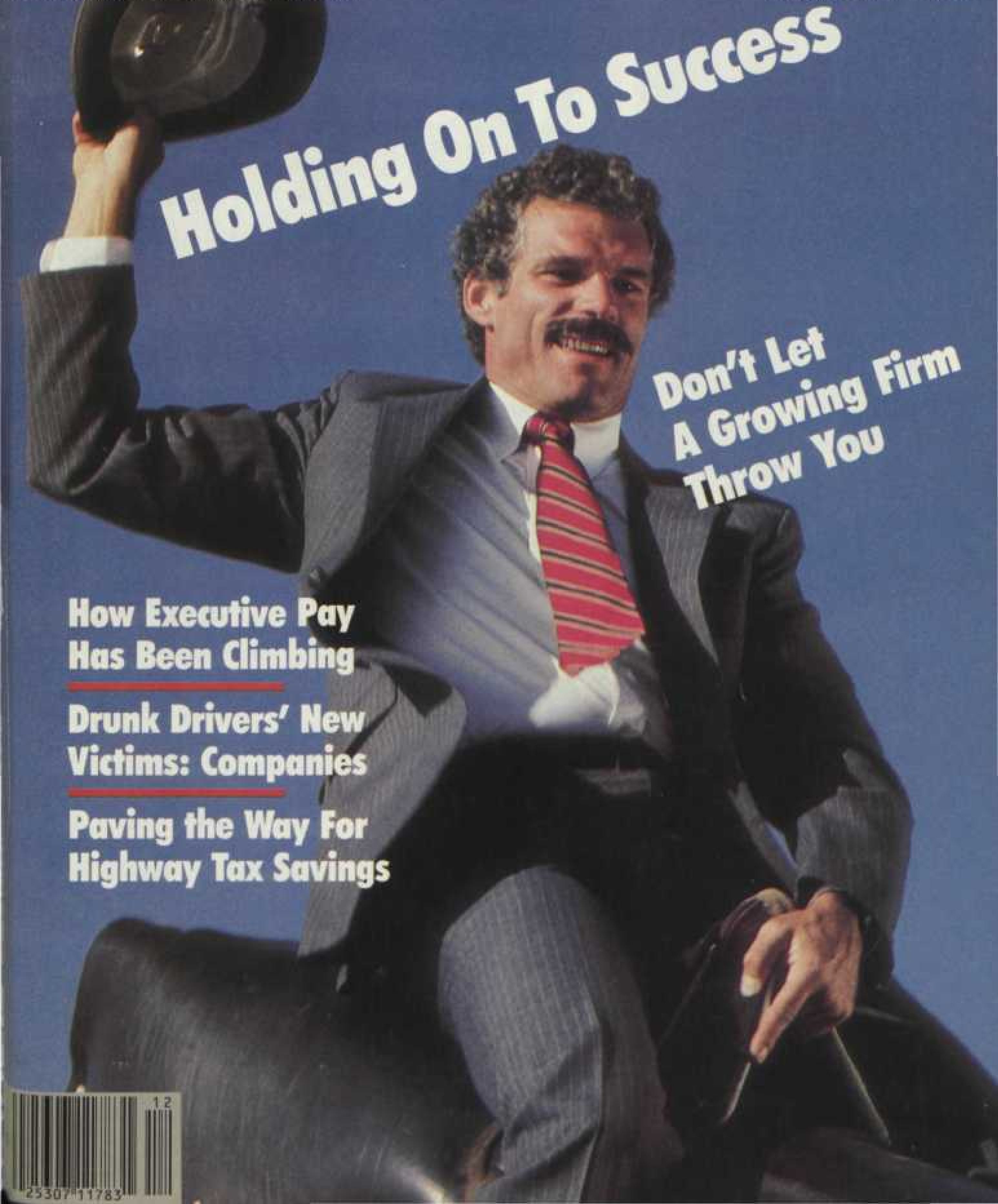

Holding On To Success

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How Executive Pay Has Been Climbing

Drunk Drivers' New Victims: Companies

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RICHARD FUNCK, MANAGER OF POSTAL AFFAIRS, MONTGOMERY WARD

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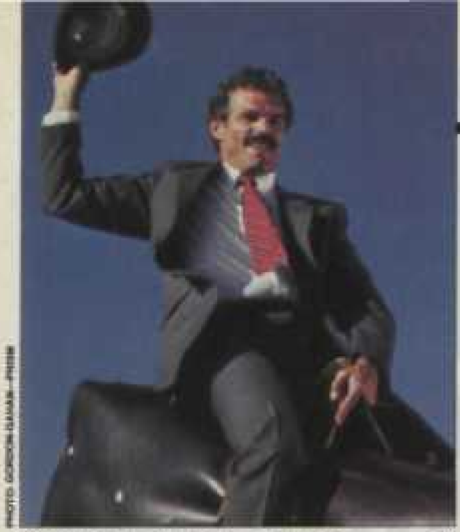
December 1984
Vol. 72, No. 12



Converting short-term success into long-term growth. 20

The nation's roads and bridges need help. R&D may be the answer. 38

Judicious bartenders can save employers grief. 40

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Compared to What?

BACK ON OCTOBER 18, William A. Niskanen did a brave but foolhardy thing. The gentleman is the senior member of President Reagan's Council of Economic Advisers. He participated in a debate before a group known as Women in Government Relations, and he gave an honest answer to a question about "equal pay for comparable worth." He called it "a truly crazy idea."

Well, it *is* a truly crazy idea, but over the past few years the idea has become the darling of women's groups everywhere. It took guts for Niskanen to fly into the flak. Give the man a Purple Heart.

For the record, it should be said that this concept has nothing to do with the well-established principle of "equal pay for equal work." On assembly lines, in secretarial pools, behind the steering wheel of a school bus, wherever men and women do the same job, they must receive the same pay.

The theory of comparable worth is something else entirely. It arises from the common observation that most nurses, clerical employes, bank tellers and laundry workers are women; and most pilots, truck drivers, trash collectors and land surveyors are men. The theory holds that some jobs, although not the same, are sufficiently "comparable" that they should be paid at the same rate.

On the surface the idea seems plausible. Back in 1971, Washington state enacted a law prohibiting sexual discrimination in employment. The then governor, now senator, Daniel Evans, said the state should set an example. If the state's salary schedules reflected a bias in wages paid to women, "then we must move to reverse this inequity." The governor's directive led to a study by Norman Willis & Associates. The consultants looked at 59 job classifications typically dominated by males and 62 that were typically dominated by females. Then they developed a point system based on four criteria: knowledge and skills, mental demands, accountability and working conditions.

It took a while, but eventually they completed their 484 subjective judgments and totted up the scores. It developed, by way of example, that a woman who worked in a laundry and a man who drove a laundry truck each scored about 100 points. Their jobs therefore were judged to be of comparable worth, but the woman was being paid $13,368 a year and the man was being paid $18,888. These remarkable conclusions led to a class action in 1982, which led in turn to a sweeping decree a year ago from U.S. District Judge Jack Tanner. He ordered the state to start equalizing pay for about 45,000 employes in the 284 job classifications.

Americans worship numbers, even when they are meaningless.

While all this was going on, the Supreme Court, speaking through Justice William J. Brennan in an irrelevant 5-4 decision, went out of its way to acknowledge "the controversial concept of 'comparable worth.'" The Democratic Party roundly endorsed the idea in its 1984 platform. On June 28 the House of Representatives voted overwhelmingly for Mary Rose Oakar's (D-Ohio) bill to study the proposition. When Rep. Dan Crane (R-Ill.) attempted to change the focus of the study from "comparable" jobs to "substantially equal" jobs, the House voted him down by 395 to 22. I mean to suggest that the idea has some steam behind it.

Yet it is just as Niskanen insists. The idea is nuts. If it ever were written into the law of the land, which is what the Democratic platform demands, both labor and management would have to abdicate their functions. Decisions that historically have been made by the interplay of supply and demand, and by such factors as productivity and profitability, would now have to be made by tea leaves and moonbeams.

How many points for a repairman's "accountability"? How many points for the "mental demands" of a locker room attendant? Americans worship numbers, even when numbers are meaningless. Told that a floor nurse and a civil engineer both score 318.72 on the Willis scale, gullible folks will swallow the simplistic proposition that both should have the same pay. The numbers provide a spurious respectability. They serve to create an illusion of mathematical exactitude that cannot be questioned. Do you challenge a tide chart or a box score? Hush! The committee has spoken.

THE MARKETPLACE does not work that way. Adoption of this dizzy scheme would require whole armies of lawyers, accountants, soothsayers and dowsers, all of them sitting by night and by day to divine the specifics of "comparable worth." The task could never be finished. The supply of house painters in August would exceed the demand for lifeguards in January. Once the earnings of a shirt presser were officially pegged at $18,888, laundry work no longer would be a "woman's job." Women would have competition from men, or shirts would go unpressed because laundries would go out of business. Perhaps it isn't "fair" that the presser is paid less than the driver, but this isn't the kind of unfairness that can be cured by magisterial decree.

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The Wall Between Church and State

Re: "A Porous Wall of Separation" [James J. Kilpatrick, October].

It is difficult for me to understand how so many of our people could forget that our nation was founded by those who were seeking relief from religious persecution and the freedom to worship as they believed. God has richly blessed America for over 200 years—we should never forget that. The day when belief in God by the people of this nation is no longer evident, we're goners.

WILLIAM B. PRIMM
President
Home Federal Savings & Loan Association
Rome, Ga.

If an old agnostic might venture an opinion, "A Porous Wall of Separation" is one of the most intelligent evaluations of such things ever written.

I have a natural terror of "fundamentalists," since I believe them to be both ignorant and doctrinaire, and to the extent that they entirely had their way they would willingly and in the name of God suppress us all. That said, Kilpatrick's evaluation of their liberties and privileges, as well as those of others, remains a lucid statement of the virtues of reason and judgment.

Agnostics, by the way, are not atheists—to be the latter requires an enormous act of faith.

EDWARD J. LAURIE
San Jose, Calif.

Perhaps Kilpatrick was just having an off day when he composed "A Porous Wall of Separation." He took a stroll down history's lane with an eye blind to the carnage caused by religious conflicts, starting right with the arrival of the Pilgrims.

The Pilgrims fled England for religious freedom, but once firmly ensconced on America's shores, they denied that same freedom to others. Kilpatrick does cite "the long, dark night of Prohibition," but he seems to have conveniently forgotten that it was the work of the same kind of people who make up today's Moral Majority.

If you ignore history, you will be doomed to repeat it.

JAMES C. MILLER
Taylorsville, Utah

I agree that our country has always had a strong religious orientation. But as a Jewish American, I must confess to being uncomfortable at the ease with which a *religious* country can be transformed into a *Christian* country—or a Moslem country, or whatever country, but one that makes minority religionists second-class citizens.

EDWARD D. ZINBARG
Short Hills, N.J.

Kilpatrick has shown how much our forefathers cherished supreme guidance in shaping our government. Religion does not run our country, but its moral values should shape our laws. If they do not, God will no longer be our ally, and our nation will suffer the decay and destruction that has been seen time and again in history.

If the day ever comes when religion plays no part in our politics, we soon will have no nation.

STEVEN W. WARD
Indianapolis

Kilpatrick allows that "every religious denomination . . . has lobbied for laws exempting churches and synagogues from taxation." Religion does not want to "render unto Caesar," but it still wants to use that which is Caesar's—public school buildings.

Religion has properties of its own to use for prayer and meetings.

ALVIN BIRKHOLZ
Miles City, Mont.

There are two minor bits of misinformation in Kilpatrick's column. He states: "From the beginning of the republic we have had paid holidays for public employes at Thanksgiving and

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Christmas, and these are inescapably religious holidays."

But Thanksgiving, as known to us, is strictly a nonsectarian observance, and it was not declared a national holiday, by Abraham Lincoln, until 1863.

CARL W. BEAR
Montgomery, Ala.

Keeping your head

A person contacted by a recruiter should heed Matthew J. Beecher's advice ["What To Do When a Headhunter Calls," October] and ascertain the legitimacy of the caller. As an executive recruiter, I can testify that a legitimate professional must have both the client's and the candidate's best interests at heart. Putting a person in a job that is not right could be the kiss of death for future assignments from that client. So important is finding the right fit that many firms, including ours, specialize in a given industry, minimizing the risk for both client and candidate.

CHARLES E. LEW
President
Coleman Lew & Associates
Charlotte, N.C.

The mysterious East

"Selling to the Japanese" [October] covers most of the right points, but it may be unnecessarily discouraging to American business people.

It is essential to know how the Japanese think and why they do things as they do. It is helpful, but not compulsory, for Americans to be able to think and act as the Japanese do. The Japanese make allowance for foreigners' lack of understanding of their social system and behavior, and, in many situations, try to adapt to the foreigners' ways.

DAVID G. ZIEGLER
President
ZED Associates
Arlington, Va.

Hail and farewell

Re: "The Mondale Tax Plan: Economy on the Fritz?" [Editorials, October].

You heavily knocked Walter Mondale's plan and pledge to raise taxes. You picked at the parts. You praised, in totally general terms, "the overwhelming success of President Reagan's own economic program." Apparently you are comfortable with the federal deficit, projected to soar to unprecedented heights over the next four years.

Mondale's decision to face this problem may have been politically naive, but give him full credit for being intellectually honest.

ROBERT D. HOULEY
Bloomfield, Conn.

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The perfect gift is more than a surprise; it hits the mark. If there's a driver on your list, you can give ESCORT or PASSPORT with absolute confidence. Here's why:

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Car and Driver magazine rated ESCORT number one in its most recent test, calling it "...**clearly the leader in value, customer service and performance...**"

In fact, in the six years since its introduction, ESCORT has become the classic instrument of radar detection. Our policy of continuous refinement has maintained its leading-edge performance. And the experts agree.

New Partner

PASSPORT is brand new. For the person on the move, switching between cars or using rentals in distant cities, it provides ESCORT performance and features in a convenient miniaturized package. You can carry it in your pocket like, well, a passport. The magazine experts haven't tried it yet, but we think they'll have to search as hard for the superlatives to describe it as we did for the technology to make it. The SMD (Surface Mounted Device) circuitry that made PASSPORT possible is simply light years ahead.

PASSPORT

ESCORT

Volume Control · *Signal Strength Meter* · *City/Highway Switch* · *Alert Lamp*

First Class Performance

When radar is out there, the superheterodyne circuitry in ESCORT and PASSPORT will find it: over hills, around curves, hidden in the bushes, anywhere. But that's just half the story.

Just as important is the unique way they give you a full, easily understood report on the radar they find. ESCORT has led the way with its variable pulse audio warning, analog meter and amber alert lamp. These all work together to give you a precise indication of radar type and range. In PASSPORT, a bar graph of eight Hewlett-Packard LEDs replaces the meter. This allows the same thorough radar report in a pocket-size package.

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The main point of a radar warning device is performance, but the perfect gift brings something more: pride of ownership. Both ESCORT and PASSPORT are finely-crafted instruments that look right at home in a Porsche, Mercedes, or any car.

Both have precision aluminum housings of just the right heft, finished in glare-resistant black. Each has a volume control as silky as that of a fine stereo. Each has a power-on indicator and a switch to choose between city and highway operation. They even have photoelectric sensors to adjust brightness to the light level of the car's interior. PASSPORT adds an

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audio muting switch to temporarily defeat the audio during long radar encounters.

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And while our system of factory-direct sales was not designed specifically for gift givers, it does offer some rather special benefits. For example, you needn't worry about buying a discontinued model still in a store's stock. Your gift will never be seen marked down in the discount chains. More importantly, giving either ESCORT or PASSPORT shows you were concerned enough about quality to track down the only source. And there's one more advantage.

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WASHINGTON LETTER

▶ REAGAN SECOND-TERM STRATEGY will aim for early action on major economic questions. President wants to exploit window of opportunity that historically is most favorable at start of an administration's second four years. Tax simplification, deficit reduction, spending cuts will be among early economic initiatives.

▶ BIG VOTE FOR REAGAN was more than a personal mandate and "will be a positive thing for business" in new Congress, says Don V. Cogman of National Association of Business PACs. Joseph Fanelli of Business-Industry Political Action Committee expects Reagan vote will cause even some liberal House Democrats to "move a little toward the center" on issues.

▶ BECAUSE DEMOCRATS RETAIN CONTROL of House, any conservative coalition to back the President "is going to have to be on an issue basis rather than across the board," says David M. Staton, U.S. Chamber of Commerce political action manager. "Building coalitions will be difficult, and it will take hard work by business on each issue to do it," Staton says.

▶ REPUBLICANS ARE ALREADY looking to congressional elections in 1986. Their ability to retain control of the Senate could be severely tested because GOP will have to defend twice as many seats as Democrats.

▶ NEW SENATE FACES FOR 1985, five Democrats and two Republicans, all are experienced legislators. Four are from House, and three have filled top state offices. "This is encouraging," says Walter A. Hasty, Jr., Procter & Gamble government relations chief. "Whether their philosophies are pro- or anti-business, these are people who should be able to quickly grasp issues and make sound judgments."

▶ COMPUTER THIEVES, BEWARE. Recently signed crime bill gives federal investigators new weapons to fight electronic theft of bank financial and consumer credit information. New crime law also targets pirating of trademarks and counterfeiting of credit cards.

▶ NATIONAL SECURITY REPORT discloses vulnerability of communications, transportation, energy distribution and financial information to terrorist attack or accident. Panel assembled by Georgetown Center for Strategic and International Studies wants Congress, President and industry to devise better protections for power lines, transformers, bridges and electronic fund transfer systems.

▶ NATIONAL LABOR RELATIONS BOARD making headway on case backlog. Chairman Donald L. Dotson says undecided cases cut from 1,647 in February to 1,313 by October. He says pace would pick up further if two vacancies on five-member board were filled. Meanwhile, Rosemary Collyer, given recess appointment as NLRB general counsel after Congress adjourned, can serve until end of 1985, even if Senate fails again to confirm her.

▶ WAGE LEVELS OF MEN AND WOMEN differ not because of discrimination but because men and women feel differently about working conditions, says Brandeis University economist Randall K. Filer in forthcoming study. He says men are paid more because they are willing to take undesirable jobs. He warns that comparable worth legislation "could force women into higher wage but lower quality jobs than they currently hold."

▶ EMPLOYE BENEFIT COSTS reached average $7,582 per employe in 1983, 5.5 percent above 1982. Details--by industry and by different benefits--are in U.S. Chamber annual Employe Benefits Survey, to be published this month.

Federal Markets Open Wide

PHOTO: FRED SUTTER

New bidding rules will give small businesses a better shot at federal contracts on spare and replacement parts like these in a Defense Department supply center.

Opportunities for small business to participate in the government procurement market have now been expanded. The Small Business and Federal Procurement Competition Enhancement Act of 1984 establishes a bidding process for the entire federal system. Some of its key provisions:

- Government must pay no more for a product than the lowest price at which that product is sold to the public.
- Civilian agencies must accept bids for a contract from any business that demonstrates it is capable.
- The Small Business Administration may place "breakout procurement center representatives" at all Defense Department installations and civilian procurement centers. They will attempt to keep bidding open to as many competitors as possible, and to prevent noncompetitive, sole-source contracts.
- Government competitions must be widely publicized, and prospective contractors must be notified of changes in procurement rules and regulations.
- Any agency drawing up a contract must plan for present and future procurement needs of a project.

Between 1979 and 1983, the dollar share of federal contracts awarded to small businesses declined steadily (it increased slightly in fiscal 1984). In fiscal 1983, small businesses—99 percent of all U.S. firms—were awarded only 18.6 percent of prime federal contract dollars.

Rep. Parren J. Mitchell (D-Md.), chairman of the House Small Business Committee, calls the bill "a first step toward a federal procurement system that recognizes the historical link between small business and the nation's economic vitality and growth."

Hiring Contractors

An independent contractor may solve some problems for a firm swamped with work but reluctant to hire an additional employe.

Deloitte Haskins & Sells, one of the Big Eight accounting firms, says a contractor can relieve an employer of liability for federal employment taxes, local taxes and regulations, retirement and other benefits, and administrative costs.

But, says Deloitte Haskins, small business owners should not rush into hiring contractors but should compare the fees they charge with the cost of having the job done by one or more employes. With a regular employe, an owner could be eligible for the targeted jobs tax credit, for example.

The Internal Revenue Service closely monitors the status of independent contractors, and if the agency ever determines that a contractor is in fact being treated like an employe, an owner could be hit with back employment taxes and penalties. Deloitte Haskins recommends checking with the IRS for an advance ruling on the worker's status.

In addition, if an owner pays annual fees or commissions of $600 or more to an independent contractor, he must file an information return with the IRS.

The accounting firm advises small businesses to consult their tax advisers and attorneys before hiring independent contractors.

Incorporation Guide

A small business owner trying to decide whether to incorporate can get valuable information from *Incorporating: A Guide For Small-Business Owners* by small business management experts Carolyn Vella and John McGonagle, Jr.

The book covers the advantages, costs and risks of incorporating. Readers will discover how incorporating affects the way a company is managed and taxed, how it changes an owner's legal and financial liability and how it affects the employes.

There is information on what kinds of businesses may not lend themselves to incorporating and what other forms of organizing are available, with their advantages.

For those who have decided to incorporate, the book provides a step-by-step guide through the financial, legal, technical and organizational aspects of incorporating.

The book is available from Amacom Books, Trade Sales, 135 West 50th Street, New York, N.Y. 10020.

Getting to Market

Stumped on how to bring a new technology to market? The U.S. Department of Commerce and the National Technical Information Service have combined forces to publish the *Guide to Innovation Resources and Planning for the Smaller Business.*

More than 50 federal and 85 state government offices that offer financial and management assistance to smaller businesses are highlighted in the guide. The publication examines the many steps in the innovation process and the skills and resources needed to follow through.

It also identifies a wide range of public and private sector resources available to help smaller businesses in such areas as financing and management.

The guide is available from National Technical Information Service, 5285 Port Royal Road, Springfield, Va. 22161. Order number: PB84-176304/TDL.

Decontrolled Gas Prices May Drop

Next year another phase of the federal government's experiment with energy price controls will come to an end, and the results may surprise some people.

On New Year's Day, price controls on "new" natural gas (reserves discovered after March, 1977) will be abolished. Controls on "old" gas (about 40 percent of the total) will remain in effect indefinitely.

But contrary to some earlier warnings that partial gas decontrol would kick prices up as much as 50 percent, prices—after adjustment for inflation—could fall next year.

Michael German, chief policy analyst for the American Gas Association, a trade group representing pipelines and local distributors, says that inflation-adjusted average gas prices will slump 2 to 3 percent because competition is forcing gas prices down.

The Canadian government, for example, cannot maintain export prices. Last year gas from the north fetched $4.94 per thousand cubic feet at the border, a price fixed by the Canadian government. But at that level, imported gas lost sales to cheaper domestic gas. Now the market sets the price, and Canadian gas sells for about 40 percent less. Recent price cutting has prompted the Mexicans to stop gas shipments to the United States.

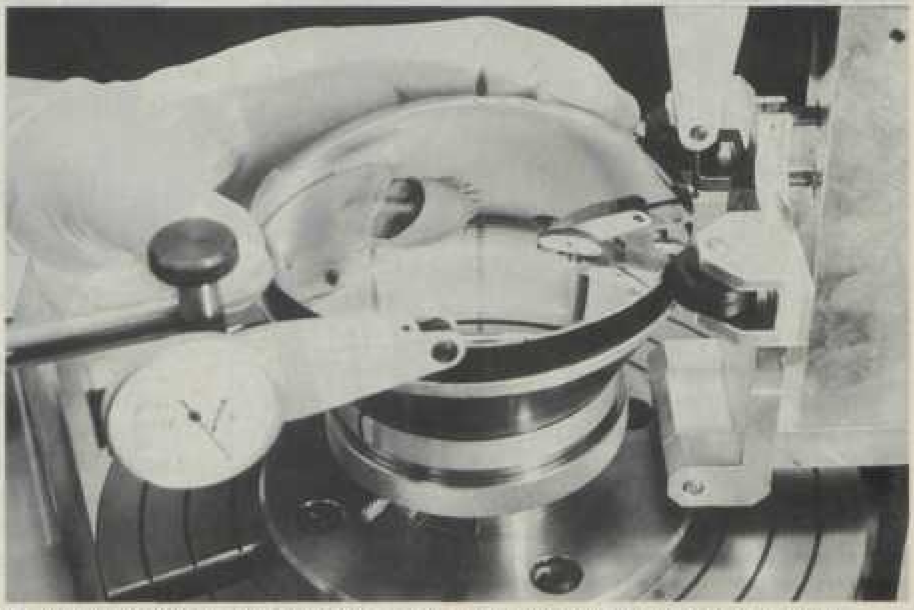
Have gas price controls been a success? German responds: "If 'new' gas had been decontrolled in 1978 [when Congress decided instead on a gradual phaseout of controls] chances are that average prices would be lower than they are today."

The oil price outlook is another reason to expect falling gas prices. Dan Conklin, an Amarillo, Tex., gas producer who is chairman of the Independent Petroleum Producers Association of America natural gas committee, says gas prices will remain competitive if oil prices fall.

At the other end of the pipeline, an official of New York's Brooklyn Union Gas Company vows that, if necessary, the company's profit margins will be trimmed in order to keep customers who threaten to switch to oil.

The next several months may be critical for the Organization of Petroleum Exporting Countries. The 13-nation consortium produces about 18 million barrels of oil per day, about 40 percent of the free world's consumption of 44 million barrels per day. Says Leonard Bower, chief economist for the American Petroleum Institute: "We may soon find out if OPEC is a true cartel that can set prices, or more like a powerful producer that influences their direction."

PHOTO: WILLIAM WARREN—WEST LIGHT



Manufacturers who use natural gas—such as the maker of this precision optical glass—stand to benefit from the expected decline in gas prices.

U.S. Energy Secretary Donald Hodel says OPEC will have a hard time keeping prices much above $25 a barrel—about $4 below their recent price—since the non-communist world's production capacity is 8 million barrels per day higher than current consumption.

But Theodore Eck, chief economist for the Standard Oil Company of Indiana, the nation's largest gasoline retailer, doubts that oil prices will fall much, if at all, in the months ahead. He says that rising seasonal demand will absorb excess production to the point that prices will firm up through the winter.

Credit Costs Down

Soft energy prices are cheering Wall Street analysts who forecast inflation and interest rates.

Edward Yardeni, senior vice president of Prudential-Bache Securities, Inc., says fundamental disinflationary forces are picking up strength. The dollar is strong even in the face of falling interest rates, and energy and commodity prices are weak.

He says that average commercial bond yields could stabilize at 12 percent—four months ago they were over 14 percent. Investors shunned bonds at that price. Yardeni says they will sell well at the lower price because of the improved outlook for inflation.

A forecast of lower short-term interest rates comes from James Joyce, an analyst at Prescott Ball & Turben, Inc., a major Midwest brokerage firm. He says that the Federal Reserve is now pumping money into the economy, in reaction to a slowdown in money growth during the summer months.

Recent injections of reserves may reduce the cost of money to banks, he says, and, in turn, that should increase the supply and reduce the price of credit in the months ahead.

Lower Inflation Forecast

These factors bode well for the U.S. economy. Says Preston Martin, vice chairman of the Federal Reserve Board: "We are going to have many, many years in which we have inflation running 3 to 4 percent." Inflation rates at both the troughs and peaks of future business cycles will be lower than they have been, Martin says. "Traders in the markets have been battered and beaten so much that it is taking them a long time to realize that we are in a disinflationary period."

A Trust With a Different Thrust

By Gerald W. Padwe, C.P.A.

This year's tax act put a crimp in using interest-free loans as a device for transferring income within a family. Many taxpayers have been casting about for another way to transfer pre-tax dollars to children or elderly parents to help cover extraordinary expenses. One alternative is called a short-term marital trust or spousal reversion trust, in which property reverts to a spouse after its short-term use rather than to the original owner.

The use of trusts to transfer income property temporarily to a child or parent is not new. Ten-year trusts, known as Clifford trusts, are specifically approved in the Internal Revenue Code. The original owner of property is not taxed on income paid to a beneficiary during the period of the trust. After a minimum of 10 years, the stocks or other property in the trust revert to the original owner. In the meantime the beneficiary has more money to spend on college costs, retirement or other purposes than if the owner paid tax on the income and made a gift of what was left.

Though the diversion of income for 10 years is a gift, and the annual gift tax exclusion is \$10,000 (\$20,000 for married couples) more than \$10,000 (or \$20,000) in income can be diverted without paying gift tax. The key is proper planning—and timing. The owner can transfer assets to the trust in installments, with part of the transfer in one year and part in the next, so long as a trust ends more than 10 years after the date of the last transfer. (It would be wise to check with a tax expert and with Treasury tables that list the present value of gifts of income for a period of years.)

The big drawback of Clifford trusts is that the income must be given away for at least 10 years. The marital trust, in contrast, can be for almost any number of years, because the property reverts not to the original owner, as with the Clifford trust, but to the owner's spouse. The original owner has given away both the income and the right to receive the property back, so he or she has nothing left to tax.

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All this sounds too good to be true, and that worries many tax practitioners. For instance, is the original owner really giving up the property when it comes back to such a close relative as a spouse?

Further, with today's high divorce rate, there is real risk in having property go to a spouse who may leave the family. And the Internal Revenue Service has not yet stated its position.

PHOTO: ERIC POGGENPOHL

New rules for casualty loss deductions may call for smaller insurance deductibles.

Casualty Planning

In December, peoples' minds turn to thoughts of snow, Christmas presents—and year-end planning. Here is a planning idea that is not intended to reduce taxes but uses the tax law to influence other decisions.

Before 1983, tax rules permitted a deduction for casualty losses when a specific casualty exceeded \$100 plus the amount of insurance reimbursement. The 1982 tax act requires the unreimbursed portion of a casualty loss to exceed \$100 and 10 percent of adjusted gross income before it is deductible.

A husband and wife with salaries, dividends, interest, capital gains and other income of \$70,000 would have to have unreimbursed losses of more than \$7,100 to be entitled to a casualty loss deduction.

Obviously, the rules have changed. You cannot time a casualty, so you may want to change your insurance deductible. For example, some taxpayers may carry a fairly large deductible (\$5,000, or 10 percent) on homeowner's insurance, recognizing that in the past the U.S. Treasury would subsidize the difference between the old \$100 floor and the amount of the deductible. Since that is no longer the case, it may be worth the added insurance premium to obtain a smaller deductible.

The same analysis may be appropriate for other major purchases subject to casualty, such as pleasure boats.

Educational Benefits Exclusion

In extending the income tax exclusion for employer-provided educational benefits through 1985, Congress raised issues of Social Security taxes on fringe benefits and of limits on exclusions.

Proponents of the educational benefits extension defeated an effort in the House Ways and Means Committee to subject the benefits to Social Security and unemployment taxes. Administration witnesses testified at congressional hearings that tax-free fringe benefits will cost Social Security \$14 billion in 1985. According to Social Security Administration officials, the combined employer-employe Social Security tax rate could be cut by one half of 1 percent if fringe benefits were taxed.

Those opposed to a Social Security tax on educational benefits voiced concern that the precedent could be applied to other fringe benefits.

The annual exclusion for educational benefits is limited to \$5,000 for each employe. Although the cap is generous enough to cover almost all employe educational programs, proponents of the benefit accepted it only reluctantly. They said the limit could be a precedent to be applied to other fringes (a possible limit on tax-free medical benefits is the subject of ongoing debate).

Congress is by no means finished with fringe benefits. The administration cites a \$64 billion 1985 income tax loss, and the major "flat tax" proposals would all eliminate or severely cut back the tax-favored status of employe fringes.

$59 BREAKTHROUGH

Phone Company's Revenge

Gone are the cheap one-piece phones. But, memory dialing, tone/pulse switching, speakerphones and comfortable phone company design handsets are the legacy of the fight.

It was a battle. Last year, with millions of cheap one-piece phones around, the Phone Company was under siege.

But revenge is sweet. Because, as fast as they appeared, most of the cheap manufacturers have gone.

One-piece phones that didn't feel like our familiar American phones are gone. And, millions of Americans have simply kept renting their old phones.

So, the Phone Company's revenge is complete. Its great feeling handsets, reliability and America's complacency, have won the Phone Company a major round.

But, with 70 million American homes at stake, you can bet that the real war is just beginning. So, while the Phone Company relaxes after the battle, a second wave of 'smart phones' is arriving.

INDEPENDENT'S REVENGE

Everyone's learned a lot. The Phone Company is offering features and the Independents have gotten the license of a regular Phone Company handset.

But, this time the Independents are way ahead. Now you can have a standard phone with a standard feeling handset just like you've had for years.

Plus, look at this. You can have 10 memory dialing, tone/pulse switching and you'll even get a great sounding speakerphone, all for **just $59.**

LOADED

Imagine the convenience of having a phone that dials for you in either Tone or Pulse at the touch of a switch. It will remember and dial any 10 numbers, including last number redial.

And, best of all, you can dial your numbers without ever lifting the receiver. Just push the hands free button and you'll be using your all new, super clear, totally automatic speakerphone.

If you do decide to lift the receiver, you'll find it cradles right on your shoulder just like a Phone Company phone.

So, using this phone is like finding an old friend who's been educated since the last time you saw one another.

PERFECT MARRIAGE

The real claim to fame of this phone is its marriage of Phone Company fit and feel with super convenience features.

Imagine walking around the room, taking notes or even washing the dishes while you talk on the phone.

And, with a speakerphone, anyone else in the room can join in too. You'll be heard loud and clear whether you are nearby or across the room, because this phone has a built-in condenser mike.

This speakerphone uses a new lightning fast auto-simplex design. It's one of the reasons that it sounds so good. You see, instead of talking and listening at the same time and sometimes getting feedback and hollow sound, this phone only does one at a time.

But, don't be misled. You won't even know it's happening. The computer brain in this speakerphone switches back and forth automatically with such lightning speed, it took us about 10 minutes of conversation to be sure.

Of course, there are no push-to-talk buttons. Everything is automatic. And, you're in full control. You'll have a full range volume control, and you can switch to the comfortable handset at any time.

The handset has its own condenser microphone and a headphone quality speaker in the earpiece to let you hear and be heard with astonishing clarity.

THERE'S MORE

You'll love dialing with this phone. There are no cheap flat buttons. You'll have sculptured keys that fit your finger and feel solid. But, the best part of this phone is not dialing at all.

You'll have a super fast 10 number automatic dialer that works with both the handset and the speakerphone.

Dialing with the speakerphone is really nice because you don't have to lift the receiver unless you reach the person you want to talk to.

Each number you store may have up to 16 digits and you can switch from Pulse to Tone at any time. So, if you live in a Pulse area and want to use Sprint or MCI, just dial your local access code in Pulse, then switch to Tone.

Don't worry about this memory dialer forgetting. When you put in 3 standard AA batteries, all your memory is protected. And, because this phone is totally telephone line powered, it doesn't require an AC plug. So, local power failures won't affect your ability to use your phone.

THE FINAL FACTS

This phone is loaded with all the latest phone features. Its electronic ringer has high, low and 'off for privacy' settings. Both its handset and phone line cords are disconnecting modular cords. So, just plug it in and start talking.

The phone is slanted toward you for ease of use. A stand flips out to give you a comfortable dialing angle for desk or counter use.

The phone also mounts easily on the wall with two screws. There's a mute button for privacy and LED indicators show various operations.

It's made by Unitech, the large personal stereo and telephone manufacturer. You can be sure that the circuitry and sound quality are state of the art. It's backed by their limited warranty.

UNITECH'S REVENGE
RISK FREE

Wait till you hear the sound. Wait till you feel the handset against your ear or cradled on your shoulder. Talk on the speakerphone and use the automatic dialer risk free.

If you're not 100% satisfied, simply return the phone in its original box within 30 days for a courteous refund.

To order your Unitech Automatic Dialing SpeakerPhone risk free with your credit card, call toll free or send your check for DAK's incredible breakthrough price of just **$59** plus **$3.50** for postage and handling. Use Order Number 9801. CA res add Sales Tax.

Well, the Phone Company has had its revenge against the cheap one-piece manufacturers. But, with the marriage of fit, feel and technolgy, the real winner is going to be you, the phone user.

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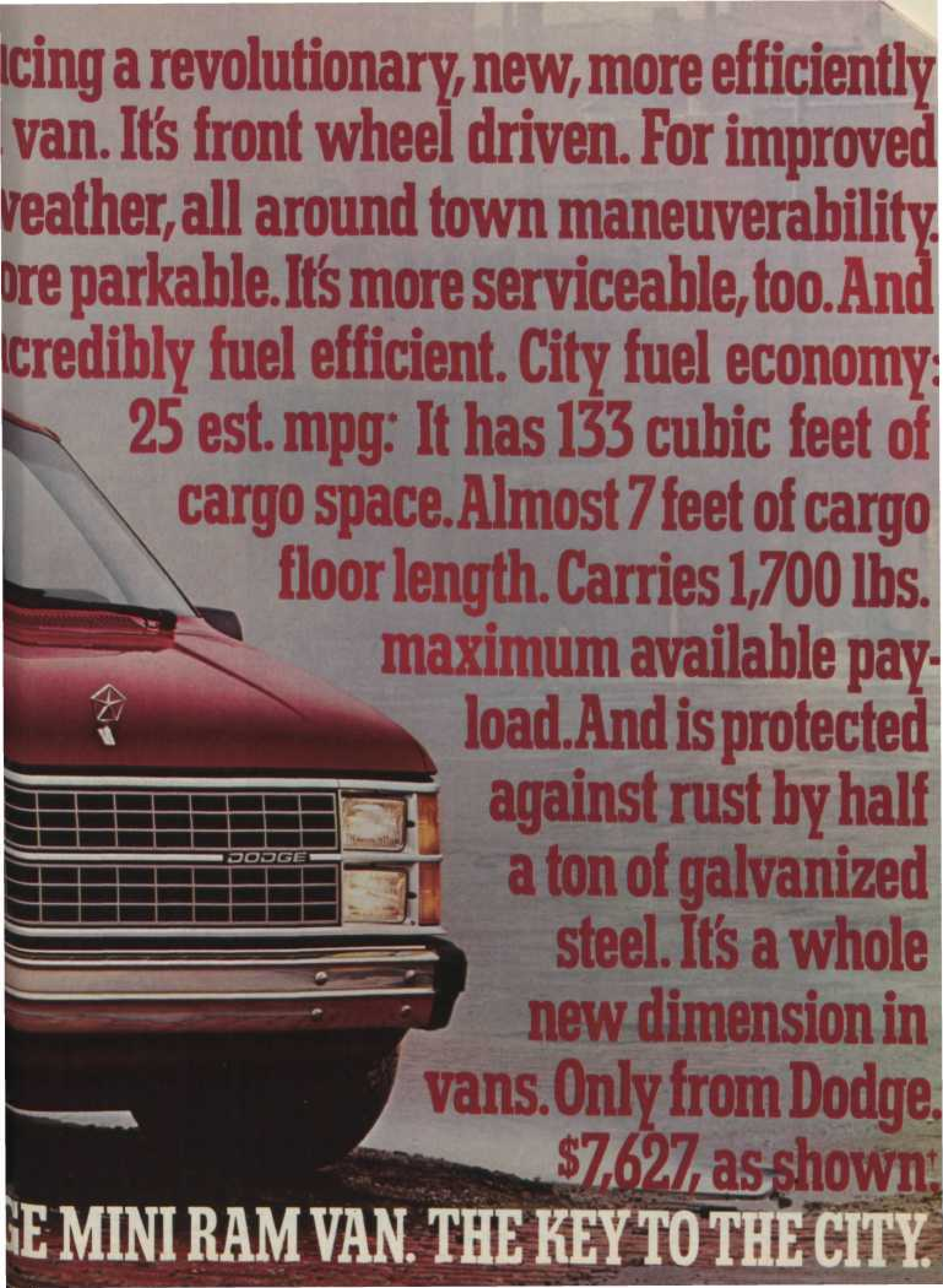
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Surviving Success In a New Business

By Sharon Nelton

THE CUSTOMERS were getting impatient. More than 20 strong, they were standing in line waiting for their orders to be taken at a fast food chicken restaurant.

Fast food? Ten minutes went by, then 20, then 25. The wait was always long in this Reston, Va., Popeyes franchise, but tonight was the worst. One customer—an urban cowboy in jeans and boots—stared menacingly down at the man who finally took his order and demanded to know why service was so slow. The employe did not answer. A woman behind the cowboy, children in tow, stamped out furiously when she learned that the restaurant had run out of the pieces she had waited half an hour to buy.

So far, despite punishing waits in line, most customers come back. Why? Because they love—make that LOVE!—the spicy New Orleans-style fried chicken that Popeyes sells.

But the franchise's principal owner, Sylvia Mundy, knows she cannot count on that love much longer. Many more nights like the one described above and, she fears, she will start losing customers.

Success, she agrees, breeds its own problems. And just when a company appears to have everything going for it, that is when some entrepreneurs are brought down.

Take Louis G. Esposito. "My best effort was done in by its own success," he says.

In the early 1970s, he was a partner in Home Care Service, a company that delivered health care into the homes of convalescents in the Northeast. By the end of its third year, it had opened 18 offices and its sales were $1 million a month.

Home Care had a $1 million line of credit from a bank, but the financing was based on accounts receivable because the firm still had no assets. Trouble was, the receivables began to get out of hand. At first, it took the company only about 10 days from the time it sold a service until payment was received. In the third year, however, the cycle had stretched to 45 days—not good enough when you are doing accounts receivable financing, says Esposito.

PHOTO: RICK BROWNE—PICTURE GROUP

Entrepreneurship means "war," not a single battle, says Intel Corporation President Andrew S. Grove.

Matters got worse. The State of Massachusetts had ordered $750,000 worth of services. Then it could not pay, and that left Home Care with only a $250,000 line of credit—not enough to run the business—and the partners sold out.

The experiences of Mundy and Esposito dramatize one of the great paradoxes of entrepreneurship: the extent to which success often endangers the survival of a business. Every day, entrepreneurs learn that success breeds its own problems, that they can fall just when it appears that all their hard work, long hours, dedication and personal sacrifices are starting to pay off.

How do some of those individuals hold on to success, while others are thrown by it?

Business founders, management consultants and academics specializing in entrepreneurial areas all say a resourceful entrepreneur survives the pitfalls of success by taking certain fundamental steps. The survivors:

- Are aware that success is not a single event but must be repeated in either the development of new products or new ways of doing business—or both.
- Anticipate and prepare for the growth stages of their enterprises with steps that include planning for managerial continuity and for transferring power from a founder to a successor.
- Reshape themselves and grow with their businesses. If the founder does not grow, the business' growth suffers. More often than not, this means that the founder must sacrifice to the orga-

nization's needs the ego and personal satisfaction that played such an important role in starting the business.

- Get on top of the numbers, even if they do not have a financial background. "Numbers are the language of business," says John A. Welsh of Southern Methodist University, a specialist in entrepreneurship. The business owner who tells you to "go see my accountant" probably does not understand his own business, Welsh says.
- Surround themselves with top-notch people in the form of outside advisers and inside managers.

Andrew S. Grove, president and one of the founders of Intel Corporation, says too many people going into business "look at entrepreneurship as something you do in a flash—once." Actually, he believes, company founders must pay as much attention to development as they do to the original event that put them in business.

HIS OWN COMPANY is a leading example of the latter approach. Intel, known for its breakthroughs in microelectronic products, has grown in 16 years from a small enterprise to a company with more than $1 billion in annual sales. The firm, based in Santa Clara, Calif., has pioneered generation after generation of technologies and products.

"Right from the beginning," Grove says, "we realized we did not want to be a 'single event'.... We were dedicating ourselves not to making a single product successful but to the phenomenon of one product leading to another and another, and one marketplace unfolding to another marketplace and unfolding to a third marketplace."

On the other hand, he adds, "so many companies surrounding us do it once and can't do it again. The reason they can't is that they never think of it as an ongoing process, as a life. They think of it as, 'Let's win this one.'

"They think of it as a single battle. We think of it as war."

Richard E. Cavanagh, a principal of McKinsey & Company, a nationwide consulting firm, believes that those entrepreneurs who are able to sustain success share "one secret." He says such entrepreneurs learn to balance their company's enthusiasm, spirit and imagination with the need to impose organizational structures, like accounting systems, to make sure the business does not run out of control.

But they hold those disciplines to a minimum, says Cavanagh, who has been studying 100 midsized high-performance companies in the course of writing a book with McKinsey Director Donald K. Clifford. The entrepreneurs who endure, they found, decide where controls are most critical—quality and purity in a food company, for example. Then, says Cavanagh, "they control the absolute daylights out of those things and let the rest depend on the common sense of the managers."

Making a lot of money should not be confused with being a good business person, warns Karl H. Vesper, chairman of the management department at the University of Washington business school.

Some entrepreneurs hit it big right away through good luck, sometimes making a bad decision that has a good outcome, he says. But luck cannot sustain an entrepreneur. He points to Adam Osborne, founder of Osborne Computer Corporation, calling Osborne a "shooting star who rose very quickly, then made some terrible mistakes and went down in flames." One of Osborne's mistakes, Vesper says, was announcing new products before they were ready and before the company had a way of disposing of products already on the market. Fearing the existing products were obsolete, the public shunned them. Osborne went bankrupt.

"You can absolutely go broke being successful," says Jerry White, an SMU colleague of John Welsh. White and Welsh have written several books on small business management, including *The Entrepreneur's Master Planning Guide* (Prentice-Hall).

Profit is not cash, White says at cash-flow analysis seminars that he and Welsh conduct across the country. "Growth consumes cash," he says, "and cash is what you use to meet the payroll." Braniff, he points out, had to shut down because it ran out of cash.

"You may need to take your foot off the accelerator and slow your growth," he tells business owners looking for strategies to strengthen their cash positions. Or they have to learn to play the "cash game," working to get receipts more quickly while delaying making disbursements as long they can without jeopardizing their sources of supplies. This might mean asking a supplier to wait for payment 45 days instead of 30.

New business owners often admit they get behind in the books and then find out they are in trouble, even though sales have been good. White and Welsh urge having one month's financial reports by the 10th of the next so that any corrective action can be taken immediately.

Business owners always operate with a blind spot, they warn, and the more the financials are delayed, the worse the blind spot is.

An entrepreneur's ego or personal desires can stand in the way of business growth, too. John Fanning had been successful in most people's eyes. He started Fanning Personnel Agencies in New York when he was only 23 and later founded Uniforce Temporary Services, a national network of 38 offices based in New Hyde Park, N.Y. He was earning $500,000 a year and, at age

PHOTO: NANCY PIERCE—BLACK STAR

Realizing his ego stood in the way of company growth, Uniforce founder John Fanning (center) vowed to move from entrepreneur to manager.

PHOTO: DAVID VALDEZ

Letting go of favorite tasks like teaching executives is tough, admits Speakeasy President Sandy Linver.

38, he was approved for membership in the exclusive Young Presidents' Organization.

Fanning says the first YPO meeting he went to—at the Plaza Hotel in New York—changed his life. The speaker, a professor, described positive qualities characteristic of entrepreneurs, such as diligence, dynamism and a host of other good things. Then he paused, tapped the ash off his cigar, and asked: "How would you like to work for that SOB?"

However, the professor said, entrepreneurs are not really concerned with developing people, they have no real plan—everything is "gut"—they do not delegate and they have their paws into everything.

Fanning recognized himself. And he got the message: The qualities needed to start a business are qualities that can kill a larger organization.

"When I left the Plaza, I made up my mind I had to graduate from entrepreneur to manager," says Fanning, now 53.

He attended YPO-sponsored programs at universities and learned from the other presidents in the organization. And, he says, "I have read every one of Peter Drucker's books three times."

Fanning began to delegate more, concentrating not on just recruiting good employes but also on retaining and developing them. "Every night, my inventory walks out the door," he says. He began to give attention to all the fundamentals of business—not just marketing, which had been his strong suit in the past. And he moved from a personal operation to a corporate structure.

His new approach, he says, has provided stability for the company and built a "steady stream of profit."

Uniforce went public in March at $7 a share. By August, shares were more than twice that, and in September the stock was split 3 for 2. Sales revenues for the first nine months of 1984 were $31.7 million, up from $21.6 million for the same period last year, says Fanning, who owns 42 percent of the firm.

Karl Vesper says that many entrepreneurs have trouble working through other people. "They get a lot of satisfaction out of doing it all themselves and controlling everything." A case in point is Sandy Linver, president of Speakeasy, Inc., in Atlanta.

When Linver started Speakeasy, she used talents she had developed as a television interviewer and college instructor to teach business executives how to become effective speakers. She had "no goals except to enjoy what I did and be the best."

In the early years, things went well. "I thought if I didn't like it, I would walk away. I wasn't as concerned about

When the Chipwich Was Down

Chipwich inventor Richard Lamotta calls it a "rags to riches to rags to riches" story. His chocolate chip-laden ice cream sandwiches hit the sidewalks of New York aboard charming old-fashioned pushcarts in 1981, and sales that summer soared to as many as 36,000 a day at $1 apiece.

It was such a winner that Chipwich, Inc., took on $4 million in short-term debt to finance its rapid growth. Lamotta (right) planned to wipe out the debt by going public, but then he nearly saw success melt before his eyes. An error by an inexperienced accountant he had hired thwarted Chipwich's efforts to issue stock, says Lamotta. He had to close his Bronx factory and lay off 110 of his 120 employes. Under a new strategy, Chipwich became a licensing company, selling rights to Borden, Inc., the Southland Corporation (parent of 7-Eleven) and others to make and sell the Chipwich.

The company was making a profit, but not enough to pay off its debt. Two creditors petitioned to put the firm in involuntary bankruptcy, but Chipwich won the right to reorganize. Its debt was eliminated when creditors agreed to accept payment in the form of Chipwich stock.

Sales in September were up 12 percent over the year before, according to Lamotta. Thanks to its licensees, Chipwich will be around a long time, he says.

What if he had it to do over again? "The first thing I would do different is pick a Big Eight accounting firm rather than look to save a few dollars on a small CPA."

PHOTO: CHIPWICH

building a place that was good for other people—just a place that was good for me."

Then she realized that the staff she had hired was giving a commitment to her. And she began to think of Speakeasy "as a solid business that needed to grow and develop, I needed to think about what would happen in 10, 15 or 20 years."

As a result of developing staff to take over more responsibility, Linver has had time to write two successful books. But she admits she really had to struggle with letting others take over classroom duties, once her private preserve. She used an outside counselor to help her make that transition.

"I was able to move forward personally and let the business move forward," she says. Linver will not disclose revenues, but in Speakeasy's 10 years as a corporation, she says, its average annual growth has exceeded 40 percent. Though she still rejects the idea of franchising Speakeasy ("the quality and control are still too important to me," she says) she is moving closer to the notion of opening a second office, probably in San Francisco.

THOUGH OTHER entrepreneurs do not confess to such personal metamorphoses as those described by Fanning and Linver, they—like Fanning—have used education to shape themselves into managers.

Patricia A. Duncanson is president and chief executive officer of Duncanson Electric Company, a Long Island City, N.Y., contracting firm she and her husband, Lionel, a journeyman electrician, started in 1977. Her prior experience consisted of jobs with the New York City health department, a stint as manager of an antipoverty program, some fashion modeling and some years as a housewife. Neither she nor Lionel was prepared for the responsibility of running a corporation in the construction industry.

Both have taken courses in construction and facilities management at Iona College. And five years ago, Pat enrolled in a yearlong course with American Woman's Economic Development Corporation, a New York City nonprofit organization that provides intensive management training for women business owners. Last summer, she attended Dartmouth College's weeklong Minority Business Enterprise Seminar.

Another AWED alumna is Regina Kravitz, a fashion designer who founded Regina Kravitz, Inc., a New York firm that designs and manufactures women's wear. When she started out in 1976, she did not know what a gross

PHOTO: DUNCANSON ELECTRIC COMPANY

To keep on top of their multimillion-dollar firm, Patricia and Lionel Duncanson have taken courses.

profit was. She had difficulty making hiring decisions. And she had production problems.

Both Kravitz and Pat Duncanson praise the AWED program for a special feature it provides: experienced business people who volunteer their time as consultants to women business owners.

Education has worked for both women. Duncanson's firm, which grossed $14,000 its first year, now has sales between $2 million and $3 million annually. Kravitz's revenues were $100,000 her first year; now she is taking in more than $10 million.

Some business experts contend that a company has to grow or die. Karl Vesper says that is not true. "Some can stay small and do just fine," he says. But he points out that bigger companies make more money. Growth offers employes the chance to move to higher positions, and growing companies have an easier time hiring.

"Companies often outgrow the entrepreneur," says John A. Carlson, senior vice president of Haley Associates, a New York recruiting firm that often works with entrepreneurial firms. Sometimes, Carlson says, if a founder is standing in the way of a company realizing its potential, investors or a board of directors wrest control from

him. Carlson believes it is critical to a young company's continuity—and the entrepreneur's staying power—that the founder create an "incubator period," hiring people more qualified than they need to be for current roles, thereby laying the groundwork for the future. A founder can hire top-notch senior level people who might eventually be contenders for the job of chief operating officer.

"When the company does need someone in the chief operating officer role, you have some internal options," he says, adding that such a transition is much smoother than suddenly imposing an executive from the outside.

HE LIKENS THE founder's role to that of parents who must let go of their children so the children can grow up. "It is inevitable in most cases that the founder-entrepreneur will perform an increasingly limited role in the overall management of what he's given birth to," Carlson says.

"He can have a long-term impact on how his creation is managed and on the corporate culture that drives it by taking his passion, his style, his commitment, and injecting those in the early hires that he makes, surrounding himself with people who share his values or whose values he can affect."

Regina Kravitz thinks things would have gone better for her company in the beginning if she had founded it with a partner who complemented her abilities. Forming a company with a team, Karl Vesper agrees, is an approach that "venture capitalists prefer to bet on." It provides balance, he says.

It is precisely the approach on which Intel was founded. Though he was one of the cofounders, Andrew Grove denies being an entrepreneur. "I'm an organizer; I'm a manager; I'm a developer of structures and processes that make businesses run," he says.

Does that mean he is a second-stage person, following the entrepreneurial event?

He gives a thoughtful sigh and says, "Not really. If you break it into stages, it won't work. Look at it, if you wish, like a surgical team. Major surgery has a variety of individuals involved with it—one who does this and one who does that at the same time, and they give way to each other." The entrepreneurial process works the same way, he says, and "people like me have to be involved right from the beginning."

When we last examined the Popeyes restaurant in Reston, Va., customer loyalty was wavering. And what of Louis Esposito of Home Care Service?

Sylvia Mundy at Popeyes has hired a new manager. She is confident that customers will see improvements shortly. "Once you get really competent people at the top, then things fall into place."

Entrepreneurs are known to be optimists, and Esposito says at least one of his former partners has started another business since Home Care Service was sold, and another has bought and sold two businesses.

Right now, Esposito is an employe. He was recruited as the marketing director of another business in the health care field. But when asked if, after his disappointing experience with Home Care Service, he would ever start another business, he answers: "Oh, sure! Without a doubt!"

Making money is not the same as being a good business person, says the University of Washington's Karl H. Vesper (right). Luck cannot sustain an enterprise for long.

Management Help for Entrepreneurs

Entrepreneurs often turn to universities and other organizations for help in sharpening their management skills. Some programs that get high marks from entrepreneurs:

• The Presidents Association of the American Management Associations, P.O. Box 319, Saranac Lake, N.Y. 12983, (513) 891-1500, Ext. 408. A 2½-day course for chief executives of smaller companies (500 employes or fewer) and a 5½-day course for presidents are offered throughout the year.

• The Smaller Company Management Program, Glass Hall 302-V, Harvard Business School, Boston, Mass. 02163, (617) 495-6450. A nine-week course spread over three years for chief executives of companies with annual sales of $3 million to $75 million and at least 40 employes.

• The Minority Business Executive Seminar, Amos Tuck School of Business Administration, Dartmouth College, Hanover, N.H. 03755, (603) 646-3330. A one-week program for owners and senior officers of minority-owned firms.

• American Woman's Economic Development Corporation, 60 East 42nd St., New York, N.Y. 10165, (212) 692-9100. Management programs for women business owners in New York, including chief executive seminars for women running businesses grossing $10 million and over or $1 million to $10 million.

• Smith Management Program, Smith College, Northampton, Mass. 01063, (413) 584-6660. Also for women only. A six-week course spread over two summers.

The learning does not come cheap. Near the lower end is Dartmouth's minority business seminar, which was $950 in 1984 (including room and meals). But the Smith program is $9,500 and Harvard's is $6,000 a year for a total of $18,000.

To order reprints of this article, see page 65.

Those Seesawing Housing Stocks

By Ray Brady

ALMOST ANYWHERE in the United States, you can see it: housing that is not selling. In Miami, it is a $2.5 million condominium marked down to $1.2 million. Elsewhere around the country—whether in Atlanta or Phoenix, and whether the home is priced at $250,000 or $90,000—chances are the for-sale sign has not come down.

"In most markets," notes a spokesman for Lomas & Nettleton, one of the nation's largest mortgage bankers, "traffic is holding up better than sales. The lookers can't buy."

It is no secret, of course, why the lookers have not been able to buy the houses they are seeing. Interest rates simply are far too high. By one estimate, in fact, only 30 percent of U.S. families can afford a median priced home of $95,000.

So why write a column about housing stocks? The reason is simple. When interest rates drop, Americans can afford homes, and housing stocks usually take off. In June, for example, when it looked like interest rates were coming down, some individual housing stocks shot up 20 percent in price in just a few days.

"When interest rates start to come down," says David Wilson, housing analyst for the Wall Street firm of Shearson Lehman American Express, "interest in housing stocks starts to pick up."

As June's spurt of activity shows, interest in the housing stocks can pick up fast. So the investor who is keeping his funds out of the market pending a further drop in interest rates (and, it is hoped, a consequent rise in stock prices) should keep a close eye on the highly volatile housing stocks. That is particularly true if mortgage interest rates keep pace with other interest rates in a decline. They have not fully done so in the moderate drop of recent months.

First-time home buyers, usually young couples seeking what is called a starter home, are the key to playing housing stocks. This kind of buyer gets hit hard by any rise in interest rates, because a rise of even one point on a $75,000 mortgage can mean an additional $100 on the monthly payment. A drop in rates, however, brings people swarming back into the market, eager to buy.

Any number of publicly held companies serve this market. "The 15 or 20 top companies in housing," says Wilson, "are a fairly homogeneous group, and they all produce homes for the first-time buyer—homes in the $70,000, or so, price range."

Among the companies (the listing does not necessarily imply a recommendation) are:

Centex Corporation: It operates in nine states and the Washington metropolitan area. The company is engaged in general construction and other activities, as well as housing construction. Its residential activity is primarily in single-family homes.

Ryan Homes: It operates in 26 metropolitan areas in the eastern half of the United States and in Texas, constructing low-rise residences that include single-family detached homes, town houses and garden apartments.

Pulte Homes: This company is active in 13 states and Puerto Rico. It specializes in single-family homes that are moderately priced—its average unit sold last year for $72,000.

As to how you evaluate a housing stock, Wilson advises looking at three criteria:

- The company should have a strong balance sheet, so it can survive the ups and downs of the housing industry.
- In its good years, the company's return on equity should exceed 20 percent. (Return on equity is simple to compute. Just divide stockholder equity into earnings.)
- Finally, the company should have a strong secular growth in its earnings.

To explain that last one: The profits of the home builders go up and down like a roller coaster. One year, $3 a share, say. The next year, nothing. When the company comes off that "nothing" year, does it show higher and higher earnings in the good years? In other words, does it have a strong secular growth?

ONE MORE QUESTION: If the housing industry moves up and down so sharply, why would anyone want to buy stock in its companies? The answer lies in what happens to these companies when interest rates go down.

Near mid-1982, for example, the investor could have picked up Pulte at a bargain basement price of less than $3.50 a share (adjusted for splits). Roughly a year later, the same stock was selling for more than $37 a share. The price of Ryan Homes quadrupled during the same period, and Centex better than doubled.

A few Wall Streeters say privately that there is another reason to look at the housing stocks: Many of them are selling at prices below their book value. As a result, there has been insider buying in some of the issues, and that is often a sign of a company's resurgence.

Some housing companies, too, may be acquired by other companies. Thus, Pacific Lighting, the West Coast utility, is moving to acquire Presley Companies.

So when you read the newspapers about how housing is slumping, keep an eye on those stocks. You will not be alone; a lot of professionals will be watching, as well.

Wilson thinks the time to buy housing stocks is before the start of 1985. Says Michael Millman, of the brokerage firm of L.F. Rothschild, Unterberg, Towbin: "These stocks have the potential to double from current levels."

Someday they will join the ranks of those who are the key to housing stock prices, the first-time home buyers.

PHOTO: CHARLES GUPTON–UNIPHOTO

RAY BRADY *is the business correspondent for CBS News.*

A Land of Vast Potential

THE ECONOMIC growth of Sudan over the past 50 years has been mainly derived from irrigation development of the Nile—largely for cotton production, but more recently for peanuts, wheat and sugar cane.

A second spur to expansion occurred with the development, beginning in the early 1950s, of large-scale, rain-fed, mechanized production of sugar and sorghum. Both types of development were concentrated between the confluence of the Blue Nile and White Nile and the clay plains of east central Sudan.

This modern agriculture stands in strong contrast to the largely subsistence agriculture in the more remote areas of the west and the south, giving a dual nature to the Sudanese economy.

Sudan has a land area of about 600 million acres. More than 220 million acres are suitable for agriculture, 180 million are forests, and 200 million are uncultivable. Of the land suitable for agriculture, only some 20 million acres are officially estimated to be under cultivation (of which 4.5 million are under irrigation). So Sudan clearly enjoys a sizable land resource availability.

Agricultural processing is the basis of industrial development in the country and is likely to remain so for some time to come. Sugar processing, oil extraction from crops and textile development are all being expanded.

The agriculture sector dominates the economy, providing means of livelihood for 80 percent of the country's 22 million people, 40 percent of gross national product and 95 percent of exports. The government, hoping to achieve an average overall gross domestic product growth rate of 3.5 percent annually, has a three-year development program under way that ends in 1986.

A total of 2.3 billion Sudanese pounds (U.S. $1.1 billion) has been allocated for the program, of which 31.8 percent is for agriculture, 18.4 percent for transport and 7.5 percent for manufacturing.

Great emphasis is being placed on the rehabilitation of existing agricultural and industrial projects. A drive for self-sufficiency underlies efforts to develop the country's vast agricultural potential. Work is continuing on expanding existing facilities in the power, communications and transportation sectors. Measures to increase productivity and capacity utilization have been intensified, and the role of the private sector in economic development has been expanded and strengthened.

Investments proposed in the development program are directed mainly at increasing exports, which are expected to grow at an annual rate of 17 percent, adjusted for inflation.

In the manufacturing sector, the most important objectives being pursued are increases in the productivity and capacity utilization of the nation's four private sector sugar mills. The idea is to meet the full needs of domestic consumption and to export, too.

PHOTOS: AMERICAN PETROLEUM INSTITUTE

Energy resources are important to Sudan. Here a Chevron Oil Company of Sudan unit is conducting seismic tests.

The government of Sudan is working with a number of international organizations and friendly countries to rehabilitate the Sudanese sugar industry. About $181.3 million has been allocated—by the World Bank ($60 million), Saudi Fund ($23.5 million), Arab Fund ($47.2 million), Federal Republic of Germany ($17.3 million) and the government of Sudan ($33.3 million).

Effective last April 1, all four mills were converted from public corporations to independent, private sector companies. This is only part of a privatization drive that is taking place in Sudan. Another example is the planned denationalization of Sudan Airways.

In addition to supporting the private sector by investing in the economic infrastructure and implementing policies to encourage private investment, the government is taking measures to improve the efficiency of public sector enterprise. Among these measures is conversion of public companies to public-private coownership.

The country's energy resources are now thought to be significantly greater

than they were considered to be only a few years ago. Sudan is focusing on the development of a 1,405-kilometer oil export pipeline, and a 70-kilometer spur line, from production facilities in the south and southwest to a new marine terminal at Marsa Nimeiri on the Red Sea near Port Sudan.

Although initial capacity of the pipeline and the terminal will be 50,000 barrels of crude oil a day, capacity can be increased efficiently and economically to 100,000 barrels a day, and ultimately to a maximum of about 200,000 barrels a day, by adding pumping stations, storage and other facilities.

The main pipeline will be 22 inches in diameter in its first part, starting at the oil fields, and 24 inches in its second part.

Chevron Oil Company of Sudan, a subsidiary of Standard Oil of California, is conducting oil exploration in the southern and southwestern sections of the country and is taking part in development of the terminal on the Red Sea.

Sudan's economy has long been hampered by transportation and communication problems, stemming in part from the enormous logistical difficulties involved in taming vast swamps in the country's interior. The government has finished digging 270 kilometers of the 360-kilometer Jonglei Canal, which will link Sudan's southern and northern sections.

The canal will be navigable throughout the year.

It will help settle a seminomadic tribal population of 350,000 by irrigating 3.7 million acres. The canal will channel enormous quantities of water that otherwise would be dispersed into the White Nile. The water will be shared with Egypt, which will bear half of the project's cost.

Sudan has long pinned much of its hopes for increased agricultural productivity on two major irrigation projects—known as Rahad and Gezira. But both have needed major infusions of capital to make them more effective.

Rehabilitation of the Rahad project, which involves 1.2 million acres, was completed recently. Thousands of tenant farmers, living in a region that now has a developed infrastructure—schools, clinics, shops, etc.—can expect a greatly improved living standard. Thousands of other workers are assured of seasonal employment in the area.

The Gezira project involves 2.2 million acres of highly productive land. Until last year, the project's production capacity had steadily declined since the early 1970s, due to fund shortages that resulted in growing backlogs of unmet maintenance and equipment replacement needs. The situation is being corrected.

Sudanese work on the floor of an oil drilling rig in their country's Muglad area.

Last year a 30 percent rise in production was recorded. This helped prevent a major decline in the country's economy as a result of adverse weather conditions that affected Sudan's rain-fed, nonirrigation agriculture.

Sudan's 1984 cotton crop totaled 1.2 million bales, up from 900,000 last year.

Cotton, Sudan's dominant crop, accounts for about 55 percent of the country's exports. It is followed by sesame (9 percent), and peanuts and gum arabic (each 8 percent). Other exports include livestock and hides. Recent crop diversification has concentrated on reduction of imports. Considerable expansion has taken place in wheat and sugar output. Sudan hopes for self-sufficiency in rice, coffee and tea.

Communication with the southern region should get a big boost when a new telecommunication system is installed by Japan's Nippon Electric. In addition, construction of a 600-kilometer road from Juba in the south to Lodwar in Kenya is planned.

Sudan no doubt will continue to provide a number of good opportunities for American firms. The country has an immediate need for machinery and technology to improve its agriculture, infrastructure and mineral industries. In the longer run, it has a potential that is virtually unlimited.

Acknowledgments For This Section

This special section was produced with the guidance of His Excellency Omar Saleh Eissa, ambassador to the United States of the Democratic Republic of the Sudan (right), and Mamoun O. Medani, the Sudanese Embassy's economic counselor and head of its economic office.

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Extra! Extra! Read About It All Over

By Mike Lewis

ONCE UPON A TIME there were newspapers. They were black and white but mostly gray, and their ink came off on the hands of readers who wanted to know what was going on at city hall and what was playing at the Bijou. Newspapers, financed almost entirely by local advertising, tended to concentrate their news coverage on local issues, resulting in a chorus of regional—and frequently parochial—voices.

Things have changed. Ridership of mass transit, where many papers were read, declined as the suburban explosion and the automobile altered commuting habits. And television cut into reading time, soaked up advertising dollars, probably shortened attention spans and eventually made black and white look drab and dated.

For the advertising agencies clustered along Madison Avenue in New York, Michigan Avenue in Chicago and Wilshire Boulevard in Los Angeles, the 1970s and '80s have been times of great promise as the nation's affluence has generated fast growth in the numbers of well-educated people with enough discretionary income to buy upscale products. Whether these dedicated consumers helped win World War II or protested the Vietnam War, ad people love them. And a national audience created a demand for national newspapers.

As increasing numbers of business people and other investors began to want more daily information, the *Wall Street Journal* began to flourish. In 1975 the *Journal*—a publication that has made a virtue of shunning frills like photographs and crossword puzzles—led the newspaper world into the space age, electronically transmitting pages from its New York headquarters to a satellite and back down to printing plants around the country.

Suddenly readers who wanted more business and financial news than their local daily provided could get it on the day of publication. The *Journal* grew to 17 printing plants and, at more than 2 million circulation, it is now the biggest-circulation newspaper in the country.

From a newspaper founded 92 years ago to serve New York's financial district the *Journal* has expanded its coverage far beyond Wall Street.

"We have a unique niche in the publications business," says Lawrence A. Armour, director of corporate relations at the parent Dow Jones & Company. "We are the business and financial paper of record." Much of the editorial expansion has come along with the circulation and advertising boom of recent years. The paper went from one 48-page section in 1980 to a two-section, 56-page paper with new emphasis on real estate, marketing and small business. The change in format was an experiment; the result, Armour says, was that "lo and behold, people loved it."

Since September, the *Journal* has been able to print 64 pages. The space devoted to news remains constant—the number of pages depends on the amount of advertising. Is there a big advertising market for *Journal* readers and their median household income of $84,900 and net worth of $271,300? You might as well ask: Does the World Trade Center tower over Trinity Church?

"We're sold out" for the whole last quarter of the year, says Armour.

The key to the competition—in which even the *Journal's* readership of 6.3 million is small compared with the 22 million who read *Time* over the course of a week—is whether the paper serves an otherwise unmet need, says newspaper industry analyst John Morton of Lynch, Jones & Ryan, a New York brokerage house.

For the *Journal*, Morton says, the test has an easy answer: "It is a very needed publication to a rapidly increasing segment of our population." For the other traditional newspaper widely available across the country—the *New York Times*—the potential audience exists though it is probably smaller than that of the *Journal*, Morton says. "Nobody really matches the *Times* for its international and national coverage," he says.

The *Times'* national edition, begun in 1980, is a two-section newspaper with a front section consisting of general news coverage and the second section devoted to business and financial coverage. On Sundays it adds a magazine and a number of feature sections. Printed at

PHOTO: ROGER WATTS—UNIPHOTO

A satellite dish for transmitting pages is assembled next to the *USA Today* building in Virginia.

five sites using satellite transmission, the national edition has a circulation of about 100,000 on weekdays and twice that on Sundays, when it is the only newspaper serving the national market.

If the *Journal* and the *Times* are three-piece-suit examples of dignity that can be ponderous, *USA Today* is the gold-chain-around-the-neck, hot-tub-in-the-patio herald of the television age. It is a ubiquitous McJournal of color and five-inch stories that finds a way to look at the world through glasses tinted nearly the same shade as its bottom line, where the hemorrhage of expenses greater than revenues is estimated to have totaled a quarter of a billion dollars.

"We try to look at the world as it is," says Ron Martin, the executive editor, and "it's a television age. We play off television."

WHEN JOURNALISTS snipe at *USA Today's* brief stories, splashy graphics and nearly endless compilations of statistics, Martin sees a world in which television sprays color into every home while many newspapers remain mired in black and white. "I think readers get a message" from drab newsprint, he says, and the Gannett Company's answer is clearly to be bright! BOLD! COLORFUL!!

Whether much time would go by before *USA Today* became *Folded Yesterday* was a large question when Gannett launched the paper in September, 1982. By some measures, Gannett is the nation's largest newspaper chain, with 85 dailies. The company owns six television stations, seven AM and seven FM radio stations, and the largest outdoor advertising company in the country. Last year Gannett's income totaled \$191.6 million on \$1.7 billion in revenues.

Pouring hundreds of millions of dollars into a market other companies could not even see, Gannett this year began to earn respectability among the advertisers who will eventually determine its fate.

A circulation audit shows 1.25 million readers, and demographic studies indicate a median household income among those readers of more than \$31,000. Slowly, advertising has increased, rising in recent months to 11 or 12 pages a day—still far fewer than most papers of similar size.

Gannett's projected breakeven point in 1987 will require a circulation of 2 million. In September, Chairman Allen H. Neuharth brought in Lee J. Guittar, who came to be regarded as a circulation wizard for his work with Times Mirror and Knight-Ridder newspapers, as president of the paper.

Now that *USA Today* has become available nearly everywhere in the country, Guittar says, there will have to be a renewed effort to reach the target audience: "the person who wants more than he gets in the local newspaper."

Though the paper was designed to be sold only on newsstands and from racks that resemble TV sets, subscriptions have come to represent 30 percent of sales. Guittar says he would like to raise that share to 35 percent, in part to assure advertisers of the continuity of readership they want.

Another young national newspaper is aimed at filling an unmet need without regard to profit or loss. Founded in 1982 to provide a conservative alternative to the *Washington Post*, the *Washington Times* in April, 1984, started a national edition that now has a circulation of more than 20,000.

The *Times* has devoted more space than most newspapers to commentary, with a heavy emphasis on conservative columnists.

PHOTO: T. MICHAEL KEZA

The national newspapers are becoming sources of supplementary news to consumers around the country.

A recent readership survey of top congressional administrative and legislative aides shows those columnists are being read. The survey indicated that top staff people on Capitol Hill rely on newspapers as their primary source of news and that the *Times* is one of the papers they read.

Executives at the *Times* say support for the paper from out-of-town visitors encouraged them to start the national edition.

Using a satellite transmission system similar to those of other national papers, the *Times* prints copies of its national edition in Chicago and in Carson in Southern California and Hayward in Northern California. Other copies are trucked to Philadelphia from the Washington headquarters. "Profit is not the motive," says Paul Rothenburg, the *Times'* general manager. Instead, the motive of the paper's owners, members of the Rev. Sun Myung Moon's Unification Church, is to offer a conservative, Washington-oriented journal of analysis and commentary.

Rothenburg says that advertising has not been actively pursued for the national edition—which has a projected first-year cost of \$13 million—but that by the spring of 1986 he hopes to have a national circulation of 100,000, large enough to attract advertisers.

"The stuff that goes in there tends to be more magazine-like to give it longer shelf life," says Smith Hempstone, the *Times'* editor-in-chief. The focus is on political reporting, columns and stories written by *Times* foreign correspondents. The goal, Hempstone says, is to become "a *Wall Street Journal* of politics and foreign affairs."

THE *Times'* crosstown nemesis, the *Washington Post*, has aimed a different kind of arrow at a target of upscale readers interested in thoughtful coverage of Washington and the world.

"What we're doing," explains Charles Hollingsworth, general manager of the *Post's* national weekly, "is taking political backgrounders and analysis from the daily paper" and packaging them in a tabloid format. Because the edition's stories are taken from the daily *Post*, the staff is small, helping reduce costs.

With a circulation up to about 50,000—ahead of projections—after a November, 1983, beginning, the *Post* weekly is aimed at opinion makers in government, politics and the media. "That's a very, very critical network in America," says the weekly's editor, Noel Epstein.

By their very nature, national newspapers are supplementary sources of information for people who read local papers and watch television news. National newspapers have an uneven past: Dow Jones' critically acclaimed weekly *National Observer* folded in the 1970s, and the *Christian Science Monitor* has experienced a 25 percent drop in circulation, to about 150,000, in the last 10 years.

But for publishers searching for an unmet need, favorable technology and demographics are making the United States a land where only the satellite-filled sky is the limit. ◻

Business Tax Reform: Bitter With the Sweet?

Treasury's Regan says that the present corporate taxation system plays favorites.

By Peter A. Holmes

ADVANCE speculation on Reagan administration tax reform plans has centered on individual taxes, but the final recommendations may have a surprisingly heavy impact on business.

If some of the proposals now under consideration by a Treasury Department task force reach Congress as part of President Reagan's official plan for revamping the tax code, there could be stiff opposition from some affected industries.

Treasury Secretary Donald Regan, in a recent interview with NATION'S BUSINESS, indicated the extent to which the task force is examining the area of business taxation.

President Ronald Reagan with Treasury Secretary Donald Regan. Regan's department is reviewing the tax system for the President and considering major changes.

Regan asserted that the existing system of corporate taxation is, in many respects, tantamount to an "industrial policy," a concept many business people identify with excessive government intrusion into the marketplace.

Industrial policy aspects of the current system of corporate taxation favor industries such as banking, agriculture, manufacturing, oil and lumber, at the expense of others, Regan argues.

"The question is," the Treasury Secretary declares, "do we want to use the tax code for industrial policy in the 1980s on into the 21st century?"

Many industrial policy proposals call for a system of credit allocation administered by government agencies. They would determine which companies were most in need of capital infusions to retain or regain economic health.

Critics have argued that such an arrangement would substitute the government's judgment for that of the marketplace in determining which companies could attract capital.

As part of the study of the corporate tax system, the Treasury Secretary says, his task force has reviewed the accelerated cost recovery system instituted in 1981 to encourage business investment in plant and equipment.

Regan says the system favors manufacturing at the expense of industries whose assets have shorter useful lives.

Treasury officials are asking if companies should be allowed to depreciate the entire cost of income-producing investments in the year in which those assets are placed in service, if the existing accelerated cost recovery system should be left intact or modified, or if business should be allowed to choose between the two systems.

Elsewhere in the area of business taxes, the Treasury Department experts have been reviewing the current system of taxing corporate dividends twice—as company earnings and as income to shareholders. Double taxation, many economists argue, can hold down new investment by raising the cost of capital and encouraging companies to borrow rather than issue new stock.

And the Treasury is exploring such questions as whether there would be an adverse impact on energy production if the 15 percent depletion allowance on daily oil production of 1,000 barrels or less were eliminated.

The ultimate goal of tax restructuring, Regan explains, is simplification "in harmony with an economic plan of a fiscal and monetary nature, to continue the expansion."

Even though the administration's main goals will be simplicity and a greater element of fairness in the tax system—and even though the President has pledged there will be no effective net increases—administration tax proposals are bound to be controversial.

Administration strategists see timing of the tax reform initiative as crucial.

REGAN SAYS that the President's landslide electoral victory will open "a window of opportunity in the first six to nine months of 1985."

The opening, he says, is wide enough for the administration to push through Congress not only its reform plan but also budget cuts that, with the cooperation of the Federal Reserve System, could lead to the longest period of prosperity in the post-World War II era.

The Secretary views the upcoming tax reform plan as a response to a public perception that the present system is both unfair and too complex.

"If we could have the best of all worlds," Regan says, "we would have a tax simplification plan that not only makes it simpler to figure out how much you owe and pay, but also one that would be a fairer system. That is to say, two people earning equal amounts would pay approximately the

same taxes." He adds: "We are going to try to do that."

Among other things, the administration wants to eliminate the current system of 14 graduated income tax brackets (15 for single persons). Rates range from 11 to 50 percent. The administration will propose three brackets—bottom, middle and upper. Rates will depend on estimates of revenues that would be collected at the various levels. That, in turn, will depend on the number of deductions, exclusions and credits that are dropped from the code.

Whatever is proposed for elimination, it is unlikely the President's tax plan will call for dropping such deductions as charitable contributions and interest on home mortgages and major installment loans, such as those for autos.

Though the task force will submit tax reform proposals to the President this month, there is no specific timetable for presidential submissions to Congress.

The President is expected to give strong indications of what he has in mind when he spells out his second term goals in his inaugural address on January 21. More details will be contained later in his state-of-the-union message to Congress. Along with tax reform, he will be placing heavy emphasis on spending reductions. His landslide election victory is expected to strengthen his hand in seeking spending restraint of the magnitude he was unable to achieve in his first term.

He will face the challenge of reducing the deficit through economic growth by reducing taxes and cutting federal spending, says Regan.

As a percentage of gross national product, federal spending peaked at 25 percent in 1983. Economic growth has pushed that down to 23.5 percent.

Over the next five years, Regan says, he would like to see it pushed down further until it reaches the current level of taxation, which is about 19 percent of GNP, a level Regan says he could live with.

Administration economic projections released last August show spending growth limited to a 7.5 percent annual rate over the next five years, with tax revenues growing about 9.5 percent annually.

At that rate, the level of deficit spending as a percentage of GNP would fall from 4.2 to 2.6 percent.

But Regan wants deficit spending brought down even further. To meet his goal of bringing spending more in line with the current level of taxation, the growth in outlays between 1985 and 1989 would have to be reduced $140 billion from the current projections.

And to meet revenue projections, Regan says, the economy must grow an average of 4 percent a year while inflation averages about 4.5 percent.

Can that growth rate be achieved?

Regan responds: "Of course. We've done it before, from 1962 to 1972. Then the average growth rate was 4 percent. To say that we can't grow again at that rate is to say that they were the best of all times, and I don't believe that is so."

THE ADMINISTRATION is now drawing up plans to appeal directly to the people, if necessary, to get spending reforms.

Where to cut spending and how much to cut it are decisions that the White House hopes to make by Christmas, says Craig Fuller, assistant to the President for cabinet affairs.

Fuller oversees the negotiations over spending levels between the Office of Management and Budget on one side and the departments and agencies on the other, as the President's budget proposals are hammered out.

White House aides will be anxious not to repeat the mistake many say was made in 1981, when OMB failed to ask for budget cuts large enough to keep deficits from mushrooming.

"This is the fourth time that many of us have gone through the budget process," Fuller says, "and now we have a


Presidential Assistant Craig Fuller: Key to the new budget is spending reform.

thorough knowledge of the budget and where to cut it."

To date, Federal Reserve Board Chairman Paul Volcker has cooperated with the administration's low-inflation policy by keeping the lid on growth in the money supply. Next year, the administration wants the Fed to supply enough credit to permit the money supply to grow between 5 and 6 percent. (That compares with the 4 to 8 percent target range for money growth the Fed has set for 1984.)

"I don't think that's an excessive rate of growth in the United States for money," Regan says, "and I think it can keep the fires of inflation banked."

REGAN SAYS the business community can help make sure that the administration's agenda for the 1980s and beyond succeeds.

"Business should do what business does best—produce goods at competitive prices and sell more of them each year. Business should stop asking for protection. If there is unfair competition, either domestically or in the international field, all right, they have a case, they make their case, and the federal government should try to protect them. But they shouldn't be coming looking for breaks in order to do what they should be doing.

"After we explain in detail our program next month, business should get to work on the political end to see that it gets passed."

Getting the facts, and finding out how the still-to-be-proposed reforms will affect businesses from Main Street to Wall Street, will be a major preoccupation this winter and spring. Many business executives say the Reagan administration still has a lot of explaining to do before business decides to get on board and push hard for those policies the administration says will lead to a new era of prosperity. ▣

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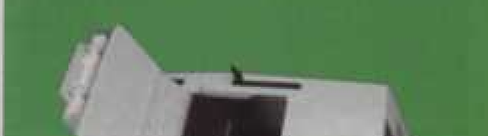

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Salt damaged the bridge deck in the top photo. Researchers hope to use electric current in the bridges to neutralize salt's corrosiveness.

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PHOTO: T. MICHAEL KEZA

Paving the Way for Tax Savings

Crumbling roads and bridges show a need for more R&D.

By Henry Eason

LEADERS of the nation's highway industry have a dream that could save taxpayers many billions of dollars and avert a nightmare of costly bottlenecks in the U.S. transportation grid.

The dream depends on research. Finding a way to extend the life of asphalt paving material by just 10 percent would save Americans $1 billion a year. A similar improvement in the durability of concrete could save $100 million a year in bridge repairs alone. A salt substitute for de-icing could reduce significantly the $6 billion annual cost of corrosion to bridge decks and vehicles.

Highway construction and maintenance cost more than $40 billion yearly now. But that sum is still not enough to reverse the deterioration of the country's 4 million miles of roads and bridges.

The interstate highway system is not yet completed—its first section opened 28 years ago—and already 10 percent of it is decayed, according to the Federal Highway Administration.

By the year 2000, says FHWA, 90 percent of the interstate and other main federal highways will need repair work, and as much as half of state and local roadways will have deteriorated.

Spending is not keeping pace with decay. In 1983, FHWA estimated the repair bill for highways alone at $456 billion—and that does not include bridges or local roads. Officials say the longer the system is allowed to decay, the more expensive it will be to restore. Repairing a pothole today may avert replacing an entire bridge deck in 10 years.

Confronted with such staggering numbers, some members of Congress and federal and state highway officials are looking for guidance to STARS—the Strategic Transportation Research Study made by the Transportation Research Board, a tiny federal agency.

STARS concludes that the whole system of building and maintaining roads needs a massive dose of research and development.

"The United States highway industry," says the study, "is large, fragmented and lacks both the organization and the economic incentives to support needed research. Therefore, progress in developing improved materials and methods of construction is too slow, uneven and inadequate to cope with maintaining and replacing the rapidly deteriorating highway system."

STARS contends that the $70-million-a-year R&D expenditures of the highway industry, measured as a percentage of revenues, are one fortieth of those of high tech companies and only one eighth of what even traditional industries like paper and rubber spend.

"In the last 40 to 50 years, the amount of highway research done on materials has been virtually negligible," says Rep. Dan Glickman (D-Kans.), chairman of the House Subcommittee on Transportation, Aviation and Materials.

The congressional panel found last year that existing research is too fragmented to produce significant results. The panel concluded that national coordination in R&D is necessary.

Most American roads, like this freeway, carry far more traffic than their designers intended.

Industry witnesses told the subcommittee that the fragmented nature of road and bridge building—it is run by thousands of local governments as well as by the state and federal governments—discourages companies from investing in R&D. Contracts—let by more than 23,000 governments—specify the type of material to be used and usually go to the lowest bidder. STARS researchers say that system offers no incentive for contractors or suppliers to undertake research to improve the durability of the building materials.

POLITICS DESERVES much of the blame for poor roads, says Federal Highway Administrator Ray Barnhart. "It's more exciting for politicians to announce grand new projects than to do research," he says.

Bad roads are costly for trucking companies and force up the cost of goods and services for the whole economy. "We feel roads can be built that are more durable," says Richard Lill, American Trucking Associations highway engineer.

STARS, which has the backing of the administration, state highway officials and some members of Congress, proposes a six-part program that would cost $150 million over five years if approved. The program's aims:

- Produce more durable asphalt through chemical engineering research.
- Achieve better pavement designs.
- Improve management systems in road procurement and building.
- Develop bridges that are less vulnerable to wear.
- Produce higher quality concrete.
- Reduce use of salt by developing noncorrosive substitutes.

An R&D investment of $150 million could yield $755 million annually in savings, says STARS, if all six goals are met at modest levels.

Thomas Deen, the Transportation Research Board's executive director, does not promise results. "We're in a risky thing," he says. "No one can be sure." An effort must be made, he says, "to achieve critical mass in research," since scattered experiments will not add up to a breakthrough.

The toughest test for new products may be economic rather than technical, researchers say. At the FHWA's Turner-Fairbank Highway Research Center in McLean, Va., scientists are experimenting with salt substitutes. One candidate, calcium magnesium acetate, is a light blue chemical that melts ice and snow. Its environmental impact studies are promising, but CMA failed its first road tests because its form was too powdery. It caked too thickly in the spreader and wintry winds blew it off the roads. The next batch will be in pellet form.

Final problem: CMA is still 10 times more expensive than salt. But an American firm and a Dutch company have expressed interest in producing CMA commercially.

ONCE ANY SUCH product is developed and made cost-effective, it still must win acceptance from the thousands of county, city and state entities that maintain roads and bridges. As the STARS report warns: "Research often fails to change practice because of limited understanding, organizational inertia, inflexible standards, a preoccupation with first costs, a mistrust of change or a desire to perpetuate jobs. A complaint commonly voiced by seasoned researchers is: Why bother? We came up with a better way 10 years ago, and our operations people still won't use it."

Meantime, the nation's trillion-dollar highway system is crumbling.

The courts increasingly are finding businesses, as well as social hosts, at fault for accidents caused by overimbibers.

Driven From Drink

Drunk driving liability rulings are giving companies sober thoughts about employes and liquor.

By Tony Mauro

ROBERT MATHESON was a problem drinker who brought his problem to work with him. When he showed up drunk at Otis Engineering Company in Carrollton, Tex., one day in 1978, his supervisor did what he thought was prudent: He walked Matheson to his car and told him to go home.

Thirty minutes later, Matheson caused a car accident in which he and three other people died. Six years later, the Texas Supreme Court ruled that Otis Engineering could be held liable for letting Matheson drive. In an out-of-court settlement, the company paid the three victims' survivors a total of $600,000.

As national concern about drunk driving increases, companies and individuals that aid, tolerate or ignore excessive drinking by their employes or guests are being held liable for resulting accidents.

TONY MAURO *covers legal issues for Gannett News Service.*

For decades, tavern, restaurant and liquor store owners in many states have been potentially liable for alcohol-related accidents under little-used "dram shop" laws, which have British precedents. (Bars were once called dram shops.) Now those laws are being dusted off and used forcefully by drunk driving victims, and not just against liquor establishments but against corporations and individuals as well.

"There are tons of areas where businesses interface with booze, and each one is a danger point," says Don Nichols, a Minneapolis lawyer and editor of *Liquor Liability Journal.* "It's a natural outgrowth of the anti-drunk-driving movement that more and more people are being held responsible."

Consider the following examples:

• The New Jersey Supreme Court ruled last June that social hosts could be held liable for subsequent accidents if they knowingly served guests at their homes too much alcohol.

• Swiftly applying that doctrine to corporate hosts, a New Jersey appeals court said a lawsuit could proceed against Sam Goody, Inc., owner of a chain of music record stores. The suit was brought by survivors of the victim of an accident caused by a Sam Goody worker who left an employe Christmas party drunk. The company's involvement in the worker-funded party was limited to lending a stereo system and paying $75 to rent the hall.

• The Pennsylvania Supreme Court said last January that the Portersville Valve Company, of Butler County, could be held liable for permanent injuries suffered by 18-year-old employe Mark Congini, who was in a car accident after getting drunk at a 1978 company Christmas party. The key to the company's liability: Congini was under the legal drinking age when he was served at the party.

• A tavern that gave away beer, as well as the radio station that carried commercials for the offer, paid a total of $92,500 to the parents of a Parkville, Mo., boy killed by a drunk driver. The driver had patronized the bar after hearing the commercials and had overimbibed.

• A Denver bar agreed to pay up to $9.5 million to a permanently injured woman for serving liquor to the driver of a car that hit her.

• Police in parts of Maryland are asking motorists arrested for drunk driving where they were served their last drink. The name of the establishment is then referred to the local licensing board for investigation.

The trend is snowballing, say ex-

PHOTO: MARK REINSTEIN—UNIPHOTO

PHOTOS: KEVIN HORAN

Sage's restaurants in Chicago have a training program for servers that helps them deal tactfully with heavy drinkers.

perts. Falmouth, Mass., lawyer Ron Beitman notes a 300 to 400 percent increase in the number of host and corporate liability cases filed or settled over the last year.

Possible next targets, says Beitman, are companies whose salesmen wine and dine potential buyers who then get involved in accidents.

Beitman, who represents many plaintiffs suing liquor servers and publishes a newsletter on trends in the field, says: "Five to seven years ago, juries weren't responsive at all to the idea of servers being liable. You would never take a case like that before them. Now they will listen."

FROM THE VICTIMS' point of view, the trend is a welcome one, as they search for more and deeper pockets to compensate them for often devastating losses. "If you're a person with a catastrophic injury," asks Nichols, "who are you going to want to pay for that—yourself or an employer who in some small way contributed to the accident?"

Adds Dr. Morris Chafetz, who was a member of the Presidential Commission on Drunk Driving, "I'm not in favor of simply creating more work for lawyers, but on the other hand, you can't just walk away from responsibility any more. The public's attitude about responsibility has shifted."

The commission, in a report issued late last year, recommended passage of dram shop laws in the 27 states that do not have them but was silent on the issue of host liability.

To many companies, the effort to hold them liable seems misguided. "If you think you can solve the drunk driving problem by punishing bar owners and corporate hosts, you're wrong," says Duncan Cameron, director of communications for the Distilled Spirits Council of America. "The problem isn't oversupplying, it's overdemanding. If I want to get drunk, I'll find a way. The individual driver is the one who must be controlled, the one who has to bear the responsibility."

Many also see a distinction between corporate and private hosts on the one hand, and, on the other, liquor establishments that have long been forbidden to serve underage or inebriated customers.

Licensed servers are not only trained in this area but are also insured against losses from liability for such accidents. Homeowners and companies that serve liquor at occasional parties are neither trained nor, in many cases, insured for such losses.

"Companies are normally insured to do what they do, which is build houses or make machines, not to have parties where people get drunk," says Nichols. He advises business people to check their coverage.

Fair or not, the trend continues, and it is beginning to have some effects on companies that fear possible liability for alcohol-related accidents.

After the Sam Goody case was set for trial, several New Jersey companies announced plans to cancel Christmas parties or to hold them at hotels. At Johnson & Johnson in New Brunswick, a spokesman says a task force is reviewing all the personal care products company's policies related to alcohol. Says lawyer Beitman: "You just can't hold these big blowouts any more. You can't close your eyes to it."

Restaurants and bars are responding to the trend by training servers to cut off excessive drinkers, by encouraging at least one member of a group not to drink and by offering free food and transportation in selected circumstances.

"It's defensive—we have to protect our businesses," says Gene Sage, owner of the four Sage's restaurants in the Chicago area. "Our industry is under attack. We serve only 25 percent of the alcohol people drink, but we are getting all the heat for it."

Sage's has one of the most comprehensive programs in the country aimed at reducing legal liability. Any waiter or waitress who works there more than 10 days receives training developed by Chafetz, who established the Health Education Foundation in Washington to provide training for servers. The training enables servers to detect problem customers early and to shift them tactfully away from more drinks.

ALSO AT SAGE'S, free soft drinks are offered to the "designated driver" in any group that comes in. Protein-rich hors d'oeuvres are served with drinks, to absorb alcohol. And during the holiday season, Sage hires a full-time driver with a car for each of his two suburban restaurants to drive overimbibing customers home.

"It's helping business," says Gene

Sage. "There's a new American health style; people are drinking less. When they come into our restaurants they know we will take care of them. They're very much aware of what we are doing, and they applaud it."

Anheuser-Busch plans to offer Chafetz's training to thousands of retailers as well. Through role-playing and videotapes, the training shows servers and retailers not only how to tell if customers are drunk but how to deal with them.

"Servers don't have a choice any more," says the health education foundation's Project Director Adam Chafetz (son of Morris). "Either they have to do it on a voluntary basis or have it forced down their throats." He cites moves in some states to license alcohol servers.

The National Restaurant Association last May unveiled an alcohol awareness training program for managers and servers, and it urges its members to discontinue "two-for-one" or "all-you-can-drink" offers—promotion gimmicks that only provide ammunition for victims' lawyers.

"Our members are aware the problem is serious," says association spokeswoman Dorothy Dee. "People vote for these laws, and those people come to restaurants."

Where will it all end?

The Distilled Spirits Council's Cameron sees insurance premiums and liquor prices rising to the point that liquor establishments go out of business, and companies and individuals cancel parties out of fear. If the freedom to enjoy liquor gets too restricted, Cameron says, there may be a backlash.

"There's a major equity and fairness issue here," he says. "A tremendous wet blanket is being thrown over everything. I don't know what percentage of accidents result from company parties, but I am sure it is minuscule."

He concludes: "To think that a person would not drink if it were not for a company party is naive." ▣

To order reprints of this article, see page 65.

Holding a Liability-Free Office Party

Companies can have safe office parties if they take such precautions as using professional bartenders and serving nonalcoholic drinks.

Don't rush out and cancel your company Christmas party just because of the national move against drunk driving. By following some prudent rules, you can reduce the risk of accidents, minimize your exposure to liability in court—and still have some fun.

The following tips were developed from materials provided by the Health Education Foundation, the National Restaurant Association and the Distilled Spirits Council of the United States, all based in Washington.

1. Don't let a secretary or office manager serve drinks at the party; hire a professional bartender, who is paid to serve and observe, and who will remain sober throughout. If one of your own workers is serving drinks, he or she will be less willing and able to cut off a fellow employe.

2. Serve measured shots only; free pouring may catch some of your partygoers off guard. And serve all drinks, including beer and wine, one glass at a time; many people will overindulge when faced with a keg, pitcher or punch bowl that lets them refill at will.

3. Make sure nonalcoholic beverages—punches, sodas, mixers and coffee—are available and prominently displayed, to minimize the social pressure to drink alcoholic beverages. Parties that do not offer soft drinks leave no choices for those who can't handle booze.

4. Close the bar an hour before the party is set to end. You might reserve the final hour for opening door prizes or making speeches, so your guests don't escape. Closing the bar early and keeping the guests there gives you a chance to observe who is unfit to drive.

5. Designate a high-ranking employe or manager to stay sober to handle problems and make sure no one who is clearly drunk leaves to drive home. That person's presence alone may discourage excessive drinking.

6. Alternatively, have everyone drop his or her car keys in a fishbowl at the beginning of a party, and designate someone to return keys at the end of the evening only to those able to handle driving home. This too will act as a subtle discouragement of overdrinking.

7. Arrange ahead of time for alternative means of transportation for those who need it—cabs, limousines or nondrinking employes with cars. The cost is well worth it. But don't announce the availability beforehand; that may encourage some to drink extra.

8. Consider holding the party at a hotel and reserve a few rooms in case some overimbibers at your party need them. Again, don't spread the word too widely.

9. Serve snacks or meals for two reasons: first, to show that drinking is not the sole reason for the party, and second, to slow down the alcohol's impact. "Alcohol is absorbed very rapidly in the stomach and intestines," says the National Restaurant Association. "The more rapid its absorption, the stronger its effect." Foods high in protein or fat (eggs, meat, cheese, whole milk) have the greatest capacity to retard alcohol absorption. A pot of coffee alone will not do much to sober up your guests.

10. Make it clear with a company policy beforehand that excessive drinking is unacceptable. Many companies are setting up corporate task forces to address the drunk driving problem and formulate company policies relating to alcohol. No need to be draconian about it. Just say, "We want everyone to have a good time, and a good time does not include excessive drinking."

Trade Law's Squeeze On Protectionism

THE NEW OMNIBUS trade law sends the world a distinct free-trade signal. A huge trade deficit was creating pressure for an economic Fortress America hunkering down behind protectionist walls. But Congress killed or diluted most measures that free traders here and abroad feared would cause a trade war.

Not that all the walls have tumbled down. Bloodied but unbowed protectionist forces will certainly mount more challenges next year in Congress. The United Auto Workers, in particular, insist that foreign cars be required to contain more American parts and labor. Their demand was ignored in the new law.

PHOTOS: CHARLES MOORE—BLACK STAR

One sore spot in U.S.-European trade: wine. Both sides have raised obstacles to imports.

Nor is all red, white and rosé on the wine front. European vintners are prepared to do battle over one feature of the act that, in their view, threatens to crush their thriving trade under heavy-footed protection for American wine grape growers.

This is not altogether sour grapes. Americans have a $600 million annual European wine habit that has been getting stronger as the dollar's strength has made imported wines cheaper. In addition, European governments not only subsidize their own wine exporters, they also impose high tariffs on imported American wines.

Faced with such obstacles, U.S. grape growers appealed to Congress for relief. Congress' solution provoked a sharp reaction from the European Economic Community, which is nevertheless pleased with the rest of the new law.

The "wine equity" provision violates international law, say EC officials. It would make it easier to challenge European imports. "We'll not hesitate to retaliate," spokeswoman Ella Krucoff says, if the United States takes "adverse actions" against the lucrative European wine trade.

For a year, the Europeans have hinted that American corn gluten exports used to feed European livestock could suffer. That has turned Kansans and Iowans against Californians and New Yorkers. Ultimately, the President will have to decide whether to make wine imports an issue with the EC. The betting is that he will not. But in case he wavers, the EC intends to keep the pressure intense.

Overall, the 1984 trade law should keep the sea lanes open for commerce.

Says Eugene Milosh, president of the American Association of Exporters and Importers: "What we're getting is a potpourri of various interests—not tasty, but nutritious for trade."

The law covers trade in everything from water chestnuts to "certain magnetron tubes." Some of it is protectionist. Much just fine-tunes the last major trade law, enacted five years ago.

Milosh is concerned that the new law gives the office of the U.S. trade representative too much discretionary authority to retaliate against foreign actions, authority that properly belongs to the President.

William Brock, the current U.S. trade representative, is the administration's leading free trader—an ex-senator who literally worked the Senate floor to defeat many of the protectionist amendments. But Brock, says Milosh, will not always be running trade policy.

"Protectionist pressures remain," says John Howard, director of trade policy at the U.S. Chamber of Commerce. "We probably will have to resist them again next year." Howard is concerned that the new discretion given the U.S.

trade ambassador is unnecessary and may lead to abuse by future trade representatives. Howard also fears that new rules governing International Trade Commission procedures may tilt more decisions toward protection.

"Vitally important," he says, was extension of the Generalized System of Preferences, giving Third World nations some duty-free access to the rich American market. Also crucial, Howard says, are new tools given the President to negotiate greater market access in services and high technology trade.

Judy Bello, a Washington-based trade lawyer, says, "The law is as significant for what's not in it as for what is. The original bills included sweeping protectionist provisions that would have triggered retaliation."

The new law also authorized administration negotiations to establish a free trade relationship with Israel that would complement the existing strategic relationship. This was a symbolic accomplishment in the Brock-led push for free trade agreements between individual countries in the absence of any major breakthroughs in multinational free trade.

Language in the new law encourages other free trade relationships, like the one budding between the United States and Canada, America's biggest trading partner. The free trade agreement, yet to be negotiated, will be America's first with an individual nation. The EC already has such a relationship with Israel. Says Sen. William Armstrong (R-Colo): "We need to seek successful negotiations with Israel in a timely manner to offset the losses we're already experiencing as a result of the Israeli-EC agreement."

Armstrong, a key figure in the debate, also praises the law's provisions against counterfeit products by denying preference to any nation selling "cheap imitations of American products that are flooding our markets."

The Coalition of Service Industries, representing the nation's most rapidly expanding trade sector, is delighted that the law promotes trade in services. Maurice Greenberg, CSI's chairman, says, "This legislation represents a landmark in U.S. trade law. For the first time, services exports, representing 40 percent of total U.S. exports, are guaranteed equal rights and treatment." Services traders have complained that the government has been tilted toward merchandise exports.

Left unresolved by Congress is the issue of how strategically important exports should be regulated. Goods of potential or actual military value to our adversaries are screened by the Defense Department before export. Too often, say many business people, military officials curb sales without realizing that the proscribed technology is already available to the Soviet Union from other sources.

A deadlocked Congress failed to revise the Export Administration Act, which regulates strategic trade. In doing so, Congress also declined to approve legislation that would have limited economic sanctions and embargoes against diplomatic adversaries. Sanctions and embargoes, say many business people and farmers, damage the American economy without substantially affecting our adversaries.

With the trade deficit still growing, it is a safe bet that the new Congress will meet in January with exports and imports still on its mind.

American-Japanese Trade Practices

Government agencies, academic institutions and independent scholars have written volumes on American-Japanese business relations. Now, finally, American and Japanese *business* people have produced a joint report assessing their governments' impact on bilateral trade.

PHOTO: T. MICHAEL KEZA

Edson Spencer: Americans and Japanese should listen to one another's complaints on trade.

Honeywell, Inc., Chairman Edson Spencer, an architect of the study, says the findings were revealing and could lead to better-informed government policies regulating trade between the world's economic giants.

The Advisory Council on Japan-U.S. Economic Relations—a group representing the largest companies in both Japan and the United States—examined two central issues, Japanese industrial policy and the variety of state and federal rules affecting American trade.

"Our government is much more involved in trade than any of us realized," says Spencer. Listening to Japanese complaints about American trade practices can be revealing to Americans, the report says. And vice versa.

The 125-page joint report summarizes the two positions and yields the common conclusion that: "Japanese and U.S. businessmen should support efforts to develop improved bilateral and multilateral frameworks for managing problems."

The comparative exercise "served to make Americans aware that Japan's industrial policies are not the sole factor responsible for the economic growth of Japan, and also brought to the Japanese an awareness of the highly significant role industrial policies have played in the success of many of their industrial sectors."

Both sides identified trade-inhibiting practices.

The Japanese say:

- They are hurt by "Buy American" policies of federal and state governments.
- Federal law provides numerous remedies to American firms that they too often misuse to protect themselves from foreign competition. And voluntary quotas are leading toward a global proliferation of managed trade.
- Stringent American policies regulating the flow of high technology defense goods inhibit trade, often without enhancing security.
- Federal and state-sponsored research and development programs boost American competitiveness, giving the United States an unfair edge.
- Federal and state tax breaks are more generous to U.S. firms than are the breaks Japanese companies get from their government.
- The trade balance would improve if U.S. interest rates were reduced.

The Americans say:

- Japan's industrial policy boosted major industries—semiconductors, computers, telecommunications, shipbuilding, steel, autos—by using government muscle to foster growth in those industries.
- Some of these practices are still warping trade by shielding some Japanese industrial sectors from imports and pushing other sectors' exports.
- The old industrial policy is reappearing in new industries, threatening to distort competition in areas like software and communications satellites.

Still, the Americans acknowledge, Japan's industrial policy provided a healthy competitive challenge that many American firms met in ways that strengthened them.

—Henry Eason

Bank of Boston Senior Vice President Kenneth Rossano chats with students.

PHOTO: RICK FRIEDMAN—BLACK STAR

Partners: Business, Education

THE NATIONAL COMMISSION on Excellence in Education called its report last year "A Nation at Risk."

"The educational foundations of our society," it said, "are presently being eroded by a rising tide of mediocrity that threatens our very future as a nation and a people."

That study, and a flood of reports from other sources, spurred the business community—already an active proponent of educational upgrading—to even greater efforts.

A poll conducted last fall by Research Forecasts, Inc., found senior executives of major industrial companies seriously concerned about the condition of the U.S. educational system. Nine out of 10 said that improvements were needed, and almost 50 percent said education should be an immediate national priority.

In the past year, growing numbers of business people have been joining schools—and often other organizations, too—in "partnerships" to improve the caliber of education. Businesses have been donating staff time as well as funds and equipment to schools in the hope that students will become better matched to the job skill requirements of today's advanced technology society.

Robert Martin, author of a new book published by the U.S. Chamber of Commerce, points out that business faces "increasing demands" for skilled workers as a result of "the current information-technology boom, coupled with international competition."

His book, *Business & Education: Partners for the Future*, details techniques of setting up partnership programs and gives examples of such programs. (To order copies, write Martin, associate manager of the Chamber's Resources Policy Department, at the Chamber, 1615 H Street, N.W., Washington, D.C. 20062. Book price: $15.)

After a decade, the Adopt-A-School program has become a permanent part of the national educational landscape. In the program, companies, civic groups and trade unions provide personnel and resources to a particular elementary or secondary school. In the Chicago area, for example, almost 200 firms have taken 600 schools under their wings.

The Boston Plan for Excellence in Public Schools is a $1.5 million permanent endowment fund for city schools, established by the Bank of Boston. Under the rules of the endowment, teachers, parents, administrators or students can draw up proposals for special projects for their schools, costing from $1,000 to $10,000.

Senior Vice President Kenneth Rossano says the bank believes that "our society only works if you have an informed electorate. Our society will function best if all our citizens can live in a meaningful way."

The Bank of New England obviously agrees. It has contributed a $300,000 grant to the plan to be used to reward teacher excellence through a system of fellowships.

A LEADER in the educational improvement drive is IBM, which gives millions annually in cash, equipment and salaries of loaned executives, generally to colleges and universities. Last year, it donated $46 million. The company is also funneling its largess down to the elementary and secondary school levels with an experimental computer literacy program it started last year. In the current school year, more than 200,000 teachers and students in 26 urban school systems are taking advantage of the $12 million program, working on 2,700 personal computers.

Programs to equip students with specific skills for special jobs are among the most popular in many communities. A vocational partnership arrangement was forged between the Culinary Institute of America and the hospitality industry in three communities. Job openings for more than 85,000 skilled cooks are expected each year through 1990.

John A. Young, president and chief executive officer of Hewlett-Packard Company, does not believe, however, that student skills and future job market requirements can be matched with precision.

Young proposes an educational system that offers "a sound grounding in basic skills, with an emphasis on lifelong learning to adapt to new technologies and new markets."

Business is also at work to improve education for 2.5 million exceptional schoolchildren. The National Business Consortium for the Gifted and Talented, a network of business leaders, is building partnerships in this area. "Facing world competition, our business enterprises cannot afford this waste of intellect," says Frank Ikard, consortium president.

As Hewlett-Packard's Young puts it, education problems have "the widest possible implications, affecting all of U.S. industry."

—Mary-Margaret Wantuck

Executive Pay: Reflecting The Economy's Healthy Glow

With profits up sharply, salary and bonus increases are again in double digits.

By Alan Johnson

Top U.S. executives had good reason to celebrate this year. Following a dismal showing in 1982, company profitability improved dramatically in 1983. This has meant healthier incentive payouts for executives in 1984 and percentage increases in total compensation (salary plus bonus) that returned to double-digit levels.

For senior executives, total compensation increases averaged 12.6 percent in 1984, a sizable gain over 1983. Salary increases for senior executives averaged 8.4 percent. These salary increases were lower than in previous years of high inflation, when companies gave larger increases to provide executives with a real earnings gain. With inflation now at lower levels, this gain in real earnings in 1984 averaged about 4 percent.

Chief executive officers and chief operating officers fared better than all other executives. Total pay increases averaged 17.8 percent for CEOs and 18.5 percent for chief operating officers in 1984. The higher raises reflect the demand for qualified executives to fill critical positions.

These are among the findings in the 20th edition of Sibson & Company's annual *Executive Compensation Report*, which details the 1985 compensation plans of 1,000 companies with annual sales ranging from $10 million to $30 billion.

There are several reasons for the level of executive pay increases in 1984. First, consumers continued to buy, and even durable goods businesses—typically the last to benefit from an economic recovery—saw profitability improve. Profits for the 500 largest industrial companies were up 12.1 percent in 1983, compared with 1982's 27.1 percent decrease.

Second, incentive payouts normally are determined according to a formula linked to future company profits, return on equity, growth in earnings per share or other measures. Targets are established each fall based on forecasts. The responsibility for making these forecasts rests with management and compensation professionals, who must be part economist and part soothsayer when establishing the targets for the coming year.

In 1981 targets were established with the expectation the economy would recover in 1982. When it failed to spring back, executives received small increases in 1983. In 1982 expectations concerning targets were less optimistic, allowing executives to meet or exceed their goals in 1983.

Executive pay increases also reflect demographics, which currently favor CEOs. The typical CEO is between 50 and 65 years old and grew up during the Depression, when the birth rate was low. With relatively few people go-

Average Percentage Increases In Executive Pay, 1979–1984

Total Compensation (salary plus annual incentive)

Source: Sibson & Company

Alan Johnson is a senior consultant with Sibson & Company, a consulting firm specializing in compensation and human resource management.

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Average Pay Levels of Key Executives, 1984

(In thousands of dollars)

Revenues	Chief Executive Officer		Top Financial Executive		Top Manufacturing Executive		Top Group Executive	
	Salary	Bonus	Salary	Bonus	Salary	Bonus	Salary	Bonus
$10 million to $25 million	$117	$ 26	$ 65	$ 10	$ 64	$ 9	$ 90	$ 23
$25 million to $50 million	142	36	76	14	71	11	105	27
$50 million to $100 million	170	46	88	17	77	13	120	33
$100 million to $500 million	232	71	113	26	89	17	151	46
$500 million to $750 million	296	97	137	35	101	21	181	58
$750 million to $1 billion	322	114	147	41	105	23	193	63
$1 billion to $5 billion	423	163	184	55	119	30	237	82

Source: Sibson & Company

tional levels have not often been successful. Frequently, companies that are sophisticated in measuring top management performance have significant problems setting quantifiable goals for lower-level staff.

Of all the long-term incentive programs, stock option plans continue to be the most popular. Currently, nearly 90 percent of the top 500 industrial companies have stock option plans. Stock option plans are prevalent, in part, because a company does not have to reduce its earnings to reflect the economic gain the executive receives when the stock is sold.

But the Financial Accounting Standards Board, which governs the accounting profession, is studying this issue to determine whether the gain to the executive should be considered compensation for services and thus an expense of doing business for the company. Ramifications of such a decision would be significant.

The overall trend in the recent tax bills has been to reduce the tax advantages of senior management perquisites. This year has brought more stringent tax regulations regarding company cars, low-interest loans and company-funded health plans.

ing to college and with low work force participation by women and minorities, only a small pool of individuals became eligible to hold CEO positions. The limited supply thus produces pressure for higher pay for this group than might otherwise be required.

JUNIOR STOCK PROGRAMS were touted last year as a revolutionary way to compensate executives and achieve company goals. But most of these plans were poorly conceived and depended on liberalized accounting standards, and they have largely disappeared. This year, instead of looking for new methods or gimmicks, companies are developing ways to make incentive programs more effective. The intent is not only to maintain compensation levels and reward executives, but also to motivate them to perform better.

Increased emphasis is being placed on the incentive goal-setting process. Over 90 percent of U.S. companies have management incentive plans, which affect pay more significantly than do salary increases. If executives achieve their goals, pay can increase as much as 50 to 100 percent, whereas salary increases might increase pay only 7 to 9 percent a year.

Companies also are trying to increase motivation by extending incentive programs further into their organizations. Unlike salary costs, bonuses are not fixed and do not automatically become part of an individual's pay the following year. Unfortunately, recent efforts to install such plans at lower organiza-

MORE COMPANY-PROVIDED benefits are being included in income or limited by a ceiling. For example, company-provided life insurance is tax-free only if the same percentage of pay is provided to all employes. If a stock clerk receives 50 percent of salary in life insurance and executives receive 100 percent of salary in life insurance, the Internal Revenue Service allows an exemption for only the first 50 percent of the executives' benefit. There is, moreover, a $50,000 ceiling on the amount of tax-free life insurance.

Employe dining facilities, office furnishings, first-class air travel and business lunches still may provide some tax advantages to executive and company.

Given business' strong performance in 1984, the forecast for executive compensation in 1985 is bright. Executives should see salary increases averaging about 7 percent and total compensation increases averaging between 12 and 13 percent. Executive pay gains will probably not be as great in following years, since pay will have recovered fully from the effects of the recession.

Meanwhile, there will be continued emphasis on developing incentive plans that help change or reinforce executive behavior—not just provide an administratively convenient way of paying executives.

Executive Compensation Checklist

Companies interested in reviewing their executive compensation programs for 1985 may want to consider a list of dos and don'ts:

• Don't automatically duplicate practices of other companies. Consider what will work best in your organization.

• Do look at how much you are paying in relation to what other companies pay. Sibson surveys indicate that making sure they pay competitively is the most important factor companies use in determining pay levels and changes.

• Do consider installing incentive plans further down in the organization. If specific results can be achieved at this level, it makes sense to motivate performance through pay

• Do monitor the expectations of your top management and make sure that they do not exceed the organization's ability to pay. Many executives with new or emerging companies believe everyone in their situation will eventually get rich. Do your executives expect such rewards?

What You Can Do About Washington Issues That Affect Your Business

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
SUPERFUND	Business will bear a share of the Superfund clean-up cost. The current law expires at the end of 1985. The Environmental Protection Agency is expected to announce its reauthorization recommendations in January.	Members of the House and Senate: Reauthorize the Superfund at reasonable funding levels. Money that cannot be used effectively will not solve the toxic waste problem.
TAXATION OF EMPLOYE BENEFITS	Upset by charges of widespread abuse of the tax code and under pressure to shave federal deficits, Congress is beginning to question the favorable tax treatment accorded employe benefits.	Members of the House and Senate: Do not expand the taxing of employe benefits. Current policy is meeting national economic security needs.
COMPARABLE WORTH	The comparable worth concept, whereby job value would be assigned on a point system based on subjective evaluation, will be pressed in the next Congress. Implementation costs for employers could be $320 billion in the first year alone.	Members of the House and Senate: Reject comparable worth legislation that would ignore marketplace values. Enactment costs, which include a potential 9.7 percent increase in inflation, are too much to bear.
EXPORT ADMINISTRATION ACT	Congress adjourned for the year without completing action on critical legislation designed to promote foreign trade. Enactment would have increased foreign sales and helped reduce domestic unemployment levels.	Members of the House and Senate: Streamline our nation's foreign trade licensing provisions and restore predictability in our export controls so we can increase overseas sales of U.S. products and cut trade deficits.
TAXES	Congress held hearings this year on the need for tax reform. The President is expected to endorse a plan early next year. Business will be affected by any changes made to current law.	Members of the House and Senate: Carefully review all tax reform proposals. Do not adopt a tax increase package under the guise of tax reform or simplification.
PRODUCT LIABILITY	The failure of the 98th Congress to adopt vital product liability legislation means confusion and numerous court battles will continue.	Members of the House and Senate: Early in the 99th Congress, adopt legislation setting new federal standards for product liability.
GROVE CITY DECISION	Many small businesses may be bound by burdensome civil rights regulations if a broad-based reversal of the Supreme Court's ruling in the Grove City College case is adopted.	Members of the House and Senate: Carefully consider the far-reaching impact of bills designed to reverse the Grove City decision. Do not adopt overly broad legislation.
BALANCED-BUDGET AMENDMENT	The entire national economy would benefit if Congress passed and the states ratified a balanced-budget and tax limitation constitutional amendment.	Members of the House and Senate: Early in the new Congress, adopt this amendment and send it to the states. It is time for Congress to live within the means of the people.

Trading Views: Korea and the United States

Plain talk dominates a televised dialogue between business and government leaders.

THE UNITED STATES' willingness to accept a $130 billion trade deficit is dramatic evidence of its commitment to free world markets, Commerce Secretary Malcolm Baldrige says in response to allegations of growing protectionism here.

Any other country facing a deficit of that magnitude would be "papered over with quotas, tariffs and other barriers," he adds.

Baldrige commented from the Washington studios of BizNet, the television system of the U.S. Chamber of Commerce, in an exchange with a panel of leading South Korean businessmen in Seoul.

The international videoconference, "A Dialogue on Korea-U.S. Trade," was cosponsored by NATION'S BUSINESS, the Korean Chamber of Commerce and Industry—which is celebrating its 100th anniversary this year—and the State of Alabama, where some Korean industry has settled.

In conjunction with the videoconference, the Alabama Power Company briefed top Korean executives, at a luncheon in Seoul, on locating plants in its state.

Van P. Smith, chairman of the U.S. Chamber, said that BizNet's "electronic wizardry" made possible the direct, plain talk needed to resolve trade problems between the two countries.

The talk was frequently blunt and hard-hitting.

This year, Korea-U.S. trade will total $15 billion. Korea has achieved for the first time a trade surplus with America. It is now the United States' seventh largest trading partner.

That status is part of the process through which Korea has transformed itself from a farming nation with $100 per capita income to a manufacturing economy that generates $1,800 for each Korean.

The process has also generated controversy, as was evidenced in the Korea-U.S. trade dialogue.

Each nation contends its business is denied access to markets in the other. At stake are billions of dollars and hundreds of thousands of jobs.

After several Korean business magnates hammered Baldrige with allegations of increasing American protectionism, he replied tersely and firmly:

"The proof of the pudding is in the eating. You are selling us $9 billion worth of goods this year. We are selling you $6 billion. I think that shows we are not unfairly keeping out your goods."

Pressing his point, Baldrige continued:

"We allow your computers, microprocessors and microcomputers to come into the United States. You will not allow ours to go into your country. You keep out our tobacco and cigarettes altogether. You keep out our insurance companies in large part, our advertising agencies, some of the services areas. We don't keep out your products of that kind. It's hard for me to understand how you can say we are treating you unfairly."

The Koreans said they see barriers rising in the United States against their metal and textile products.

To Baldrige's assertion that the United States is the world's most open market, Kumho Group Chairman Park Seong Yawng responded: "Even though the United States is avowedly for free trade, there are indications of trends in the other direction. The public is led to believe the cause is cheap imports,

PHOTOS: U.S. CHAMBER OF COMMERCE

In Korea were KCCI's Chung Soo Chang (top), and (below) U.S. Chamber Group Vice President Carl Grant, Kumho's Park Seong Yawng, ex-Premier Nam Duck Woo, U.S. Chamber President Richard Lesher, Chung, Ambassador Richard L. Walker, Hyundai group's Chung Ju-Yung.

rather than the real cause—high interest rates, a decrease in exports to debt-troubled Latin American countries, strong demands for imports induced by rapid recovery in the United States economy and competition in some industries."

"If this unfortunate trend continues," added Park, a textile, rubber, electronics and steel producer, "how do you expect to stop and reverse it and reestablish the United States as a free trade champion?"

Baldrige shot back: "When is the United States going to return to being the champion of free trade? We have just won the championship belt for the 20th year by running a $130 billion trade deficit in 1984. I do not know of another country in the world, including Korea, that could withstand that kind of deficit as a percentage of its gross national product without having the whole country papered over with quotas and tariff barriers."

Baldrige asked the Koreans why Korea bars American services exports. Chung Soo Chang, chairman of the Korean Chamber of Commerce and Industry, responded:

"Korea started economic development only 20 years ago. . . . Our industry has not fully matured. We are now studying the possibility [of liberalizing services trade], and we will open our doors step by step. We appreciate it if you will give us more time to study this problem and take the necessary steps."

Baldrige then asked why Korean laws are not strong enough to stop violations of American copyrights. Again, Chung replied that more time is needed to redress the grievance.

The frank airing of views disclosed a gulf in trade perceptions. The Koreans demonstrated their conviction that American laws against dumping products below market price and against unfair government subsidies to imports only thinly disguise protectionism.

BALDRIGE COUNTERED that antidumping and antisubsidy laws are legal under the General Agreement on Tariffs and Trade, and he added that, without them, American free traders could not convince Congress and the administration to maintain world leadership in fairer trade practices.

At one point, the Secretary said he felt he had to object to "constant" statements by "every speaker" implying "that the United States is turning back to a protectionist stance."

At another point, he declared: "The fact that your markets are not nearly as liberalized as those of the United States is something I am having a hard time getting across. . . . There are many products we cannot sell in Korea that you can sell in our country."

But the Korean panelists countered that their country was making significant progress in liberalizing trade, often at the risk of opposition from domestic interests.

They also said the U.S.-Korean relationship should be a particularly close one, in view of the fact that the two nations are "the foremost defenders of peace and security in northeast Asia."

Chung complained that Americans unfairly blame cheap Korean products for their imports woes, without acknowledging that the trade balance between the two nations has been about equal over the last 20 years.

Despite the candid exchanges, all participants in the dialogue underscored the value of Korean-American trade.

Said President Richard Lesher of the U.S. Chamber: "The United States Chamber of Commerce is dedicated to increasing this trade and reducing those tax and regulatory barriers that might impede free and fair trade."

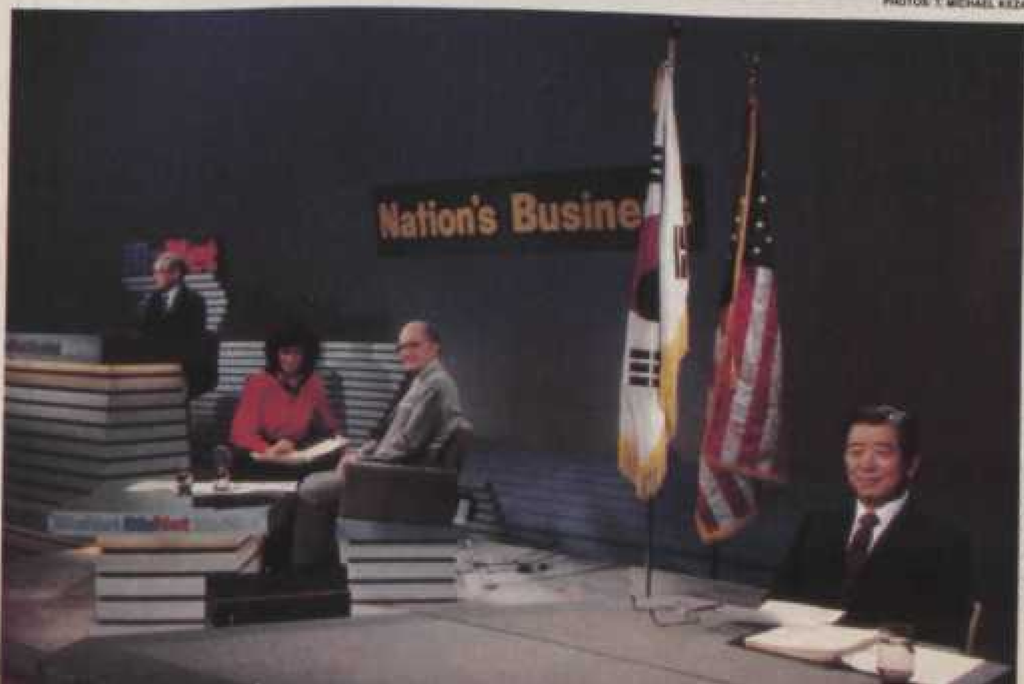
Former Korean Prime Minister Nam Duck Woo, now chairman of the Korean-U.S. Economic Council, said forms of protectionism in the United States have reached "epidemic proportions" in the view of many Koreans. But Nam conceded that the United States is basically a free trading power and observed that all industrial nations, including Korea, must struggle against protectionism at home as well as abroad.

Meantime, Koreans are welcoming greater American investment. Their financial markets have recently opened more to foreign capital.

The bottom line, said Baldrige, is "that our relationship is of such importance to the United States that we can . . . never let trade disagreements disrupt it."

—Henry Eason

PHOTOS: T. MICHAEL KEZA



Commerce Secretary Malcolm Baldrige (top) spoke from BizNet's Washington studios during the U.S.-Korea dialogue. Below: U.S. Chamber Chairman Van P. Smith, moderator Meryl Comer, Baldrige and Korean Ambassador Lew Byong Hion.

How To Make Labor Your Ally In Changing Work Rules

ILLUSTRATION: WILLIAM COULTER

By Woodruff Imberman

MANY a business owner or manager yearns for union cooperation on changing work rules that hold down productivity and increase costs.

Such rules promote inefficiency in many ways, like needlessly expanding washup time and unjustifiably limiting the number of tasks an employe may do.

"If an electrician can use a screwdriver to take the cover off an electrical contact instead of waiting for a millwright to do it, you save a lot of money in terms of downtime," one executive points out.

But prospects for negotiating work-rule changes are dim if executives fall into one of several common traps. Our management consulting company conducted a detailed study of joint labor-management committees in 22 industrial companies, examining productivity before and after the committees met. Only four companies succeeded in improving plant productivity.

From the others' frustrations, we were able to glean invaluable insight into ways to win union acceptance of changes in work rules. Here are recommendations for a successful program:

Cooperate. Committee minutes indicate that the first meetings at most firms studied were so full of distrust, posturing and adversarial language that it was hard to believe both sides were trying to cooperate for their mutual advantage.

At one Midwestern plant producing farm tractor parts, the joint committee met six times. All that developed were arguments over each side's responsibility for the sad state of the business.

Managers kept pinpointing various work rules they said had ballooned labor costs, and the union representative kept harping on management's "stonewalling" on hundreds of unresolved grievances. The committee met once again, five months later, with no results.

The lesson: Behavior typical of contract negotiations will not produce results in what is supposed to be a cooperative effort to increase productivity.

Be specific. The general threat of foreign or domestic competition is not enough to motivate the rank and file, and hence union leaders, to make special concessions. The threat must be specific—that plant X has lost $10 million, or that competition is threatening the existence of plant Z and employes' jobs.

One Midwestern steelmaking firm complained to its union representatives of "murderous" foreign and domestic competition. Losses had been in the double-digit millions the previous year, the employer said.

The union president responded by pointing out that the company was debt-free, "a remarkable achievement." He added that the company's losses per ton shipped were less than the industry's. He could see no reason for any change in work rules, he said. End of productivity cooperation.

Have a heart. Successful educational campaigns about a company's financial problems require heart as well as charts. Management must learn to empathize with the rank and file—to show an understanding of their fears.

Executives at one mid-Atlantic plant producing screw-machine products launched an in-house campaign based on economic charts and data. They then insisted that, in light of the facts, nothing could save the company except a work-rule change. Workers, they said, should be fired if the goods they produced did not meet quality and quantity standards, and union stewards should not be allowed to intervene.

Labor representatives on the company's joint committee reluctantly agreed to the change. Six months later, the union local officials were voted out of office by an enraged rank and file who understood nothing of the rationale behind the change. The new union officers repudiated the agreement on the ground that it had not been approved by the membership.

Managers must pay attention to employes' needs and desires. In this case, if the plant's executives had asked for workers' suggestions, instead of simply laying down the law, results might have been happier. Employes are suspicious about the "real" aims of work-rule changes and productivity improvements. Logic apparently is not enough: Employes simply are not moved by the profit picture. Few employes believe management's claims of going to the poorhouse.

Keep promises. Companies that promise their employes rewards for increased productivity—such as incentive pay or job security—and then change the rules or diminish the payoff endanger their productivity plan.

One steel company adopted a long-range plan for sharing the gains of increased productivity as part of an agreement to end a 115-day strike in 1959. The plan improved union-management relations and job security. But the bonus formula was changed later, causing dissension. The revamped bonus

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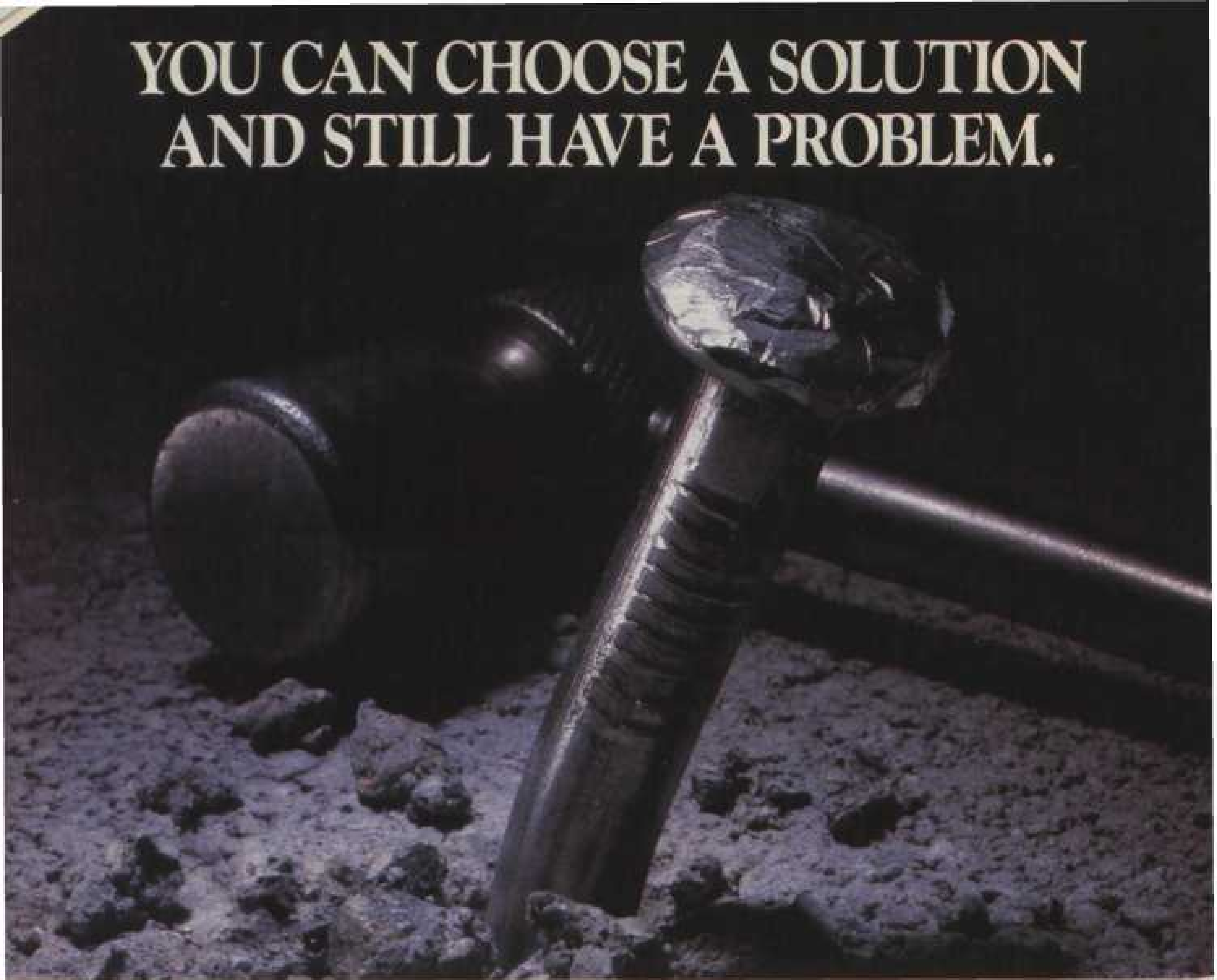
WOODRUFF IMBERMAN *is president of Imberman and DeForest, management consultants headquartered in Chicago. The firm has served such large companies as Sears, Roebuck and DuPont and a host of smaller companies.*



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turned out to be less than the previous incentive pay, leading to a 43-day strike in 1972.

A new long-range sharing plan was devised, but it, too, ran afoul of workers. Under this plan, employes were paid bonuses related to overall plant performance, not their own contributions.

Labor-management relations took a nose dive, and the new productivity plan died in 1982.

Lose gracefully. Opportunity for union input—and even a union victory now and then—must be evident to the rank and file. Management can stand some coaching on how to lose occasionally. Whenever it appears that union officials on a joint committee have sold out to management, the productivity plan falters.

One Midwestern company producing hydraulic valves won a sound victory in the short run only to become a loser in the long run.

Management came to the initial joint meetings with a laundry list of productivity improvements. Among them were relaxation of rules that limited the number of machines an employe could handle, expansion of the number of tasks certain kinds of employes could do, elimination of barriers to promotions regardless of seniority and crackdowns on excessive absenteeism.

Union representatives agreed to most of the demands. They, in turn, asked that union members with five-year seniority be guaranteed full employment for 52 weeks of every year in the upcoming three-year contract. The company agreed to provide such guarantees only for those with at least 15 years' seniority—a very small percentage of the work force.

When management later exercised this right and cut the size of the work force, employes accused their representatives of selling out. The result: a wildcat strike, a drop in productivity and an increase in costs.

Take your time. Impatience is the final ingredient in the recipe for failure. When management talks of moving elsewhere if a productivity program does not show concrete results by the end of the fiscal year, the outcome is union suspicion that the program is somehow against members' best interests.

An Eastern firm that produces air compressors found this out when it insisted on a quick solution to the vexing problem of excessive absenteeism.

Abuses of workers' absentee privileges were compounded by a "bumping" rule that allowed the next senior employe to be moved into an absentee's job—even if the person was out for only one day. Someone then had to be moved up to fill that employe's job. To fill 25 absentee slots required 112 "bumping" moves and had a horrendous effect on paper work, productivity and quality.

Management representatives on a joint committee insisted on virtual overnight action on such requests as requiring workers to obtain doctors' certificates and see company physicians. Union representatives, however, dragged their heels and wanted to discuss details. They held meetings with their stewards and then with the rank and file, who overwhelmingly turned down the proposals because of suspicion about management's haste. Management had not understood that union governance is a political process: It moves slowly.

OUR STUDY, as well as our experience with other companies, enabled us to identify other considerations that contribute to success.

Managers must acquire a better grasp of the psychology of the situation and put more sweat into the proceedings than most of them do. Management sets the tone. It is difficult to get union representatives to cooperate when they feel they are being disregarded or treated with little consideration.

Executives are not normally disposed to listen to hourly employes, whose suggestions are often regarded as unwarrantable infringements on management rights. "It's like asking the inmates of the insane asylum how to run the institution," one executive says. And hourly employes are not accustomed to talking frankly to executives; they fear reprisals if they say the wrong thing.

But in all successful joint efforts, managers asked the rank and file how they felt about the competitive threat and what they thought should be done about it. The managers listened to employe problems, investigated complaints and quickly made needed corrections.

One West Coast producer of aviation components turned up a plethora of complaints about the work environment during group interviews with employes on quality and productivity. The complaints surprised the high command and stimulated quick improvements.

Union reaction was so positive that productivity improved 18 percent and scrap was cut 43 percent in the first year. The group interview technique became a standard procedure, and improvement continues.

Narrowly focused unions and authoritarian managements are so embedded in basic industries that adversity is almost as hard to eradicate as sin. Changing attitudes on both sides can be inordinately difficult. But it works. ■

To order reprints of this article, see page 65.

Stage Fright in the Executive Suite

By Annette Kornblum

JOHN H. is a chief executive officer who dominates the boardroom but freezes whenever he enters a roomful of strangers. The thought that he might do or say something foolish—or, worse, lose control— is enough to make his stomach churn, his heart race, and his body quiver.

Whether the occasion is a speech before a large group of people, a television interview that he knows will be seen by thousands of viewers, or even a cocktail party, John undergoes a dramatic transformation. This high-powered executive suddenly feels powerless, and everything around him seems dreamlike and unreal.

John suffers from a condition known as performance anxiety, a psychological form of panic that affects people in all kinds of situations where they are being evaluated—a speech, a press conference, a job interview, even a social affair.

Because of our society's emphasis on success and intense competitiveness, experts believe this form of anxiety is widespread in the workplace but overlooked. The authors of the *Book of Lists* found that 41 percent of the people surveyed rated speaking in front of others their worst fear—fear of death finished second at 19 percent.

Even some actors, politicians, executives and others who regularly are in the spotlight are afflicted. "The most confident people I've interviewed are insecure about some facet of their persona," says Jackson Bain, a veteran television newscaster who is now vice president for broadcasting at Gray & Company, a Washington public relations firm. "When a large number of humans are watching you, all the insecurities you never recognized suddenly come roiling to the surface."

Some anxiety is natural and may even enhance performance, because it pumps more adrenaline into your system, making you more alert and motivated. But when the pressure becomes extreme, the effects on physical and emotional well-being can be destructive.

Migraine headaches, skin and gastrointestinal problems, hot and cold flashes, and hypertension all can be typical reactions. So can psychological symptoms that impair job performance. "As anxiety mounts, you become increasingly involved with overcoming it, which depletes your energy to think, concentrate and be creative," says Dr. Herbert J. Freudenberger, a New York psychologist and author of a book called *Situational Anxiety*.

When it gets bad enough, the anxiety can become a phobia. Jerilyn Ross, senior clinical associate of the phobia program at the Center for Behavioral Medicine in Rockville, Md., describes the syndrome as "a disease of 'what if I . . . lose control, scream or look like a fool?' " In such cases the anxious person avoids any situation that might provoke these fears.

Burt J. Rubin, a legal editor at the Bureau of National Affairs in Washington, intended to be a trial attorney but was compelled to switch careers "because I knew I couldn't argue a case or represent anyone in an adversary situation."

Rubin finally conquered his phobia by enrolling in the Rockville program, which gradually reintroduces sufferers to stressful situations to help them gain confidence. "We take people one step at a time to get them to deal with the situation," says Ross. "The starting point is wherever the person feels comfortable. If he is afraid his legs will shake when he stands up to deliver a speech, we'll make him stand up and shake. Then we'll teach him how to deal with those thoughts by focusing on something else."

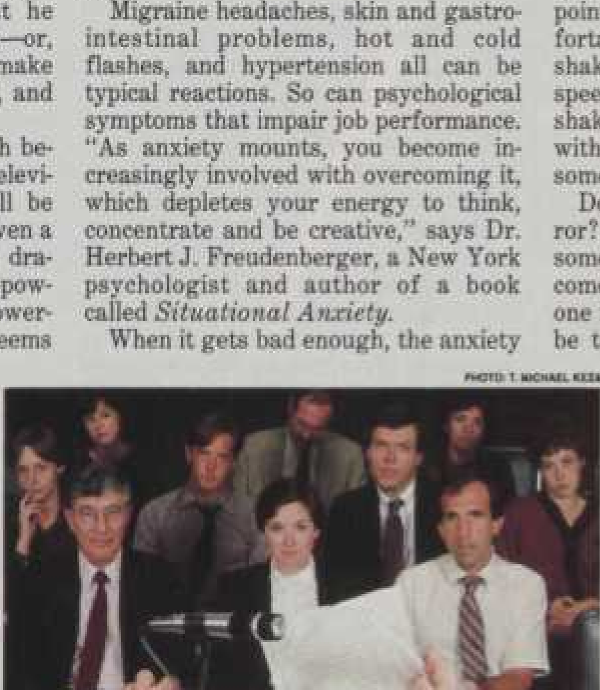
Does touching a podium inspire terror? The solution may be to search for someone in the audience who can become a sympathetic listener. If someone freezes on a test, the way out may be to start with the simple questions first and return to the harder ones later. Another technique is to stall for time by scribbling on a doodle pad until the fear passes.

"The goal is to help sufferers lead a normal life so they don't turn down promotions or move into other areas because of their fear of public speaking," says Rubin, now a part-time therapist in the program.

For occasional sufferers of performance anxiety, here are some other ways to cope with pressure situations:

- Know your material well. Anticipate the questions you'll be asked and rehearse your answers so that no matter what your state of mind, the material rattles off automatically.
- Do a dry run. Role-play with friends and colleagues, rehearsing how you will say or write something.
- Allow for spontaneity. The less worried you are about making mistakes, the less anxious you will be and the more likely you will appear at ease.
- Do breathing exercises. Immediately before you're about to perform, inhale and exhale slowly and evenly.
- Seek help from a professional. Even a few sessions with a skilled therapist can help you develop confidence. Organizations that can provide guidance and referrals include the Center for Behavioral Medicine, 6181 Executive Boulevard, Rockville, Md. 20852 (301) 231-9487, and the Panic Attack Sufferers' Support Group, 1042 East 105th Street, Brooklyn, N.Y. 11236 (212) 763-0190.

PHOTO: T. MICHAEL KEZA



Some people get white-knuckled on an airplane; others, at a podium. For many, the fear of speaking before a group exceeds the fear of death.

ANNETTE KORNBLUM is a Washington-based free-lance writer who specializes in business and health topics.

Employe benefits like flextime and child care have helped their crafts firm become a multimillion-dollar company, say Terrece Woodruff (left) and Jo Buehler.

Designing a Design Firm With Family in Mind

The turn-of-the-century red brick house sits back on a quiet residential street in Ogden, Utah. "The Vanessa-Ann Collection actually started on a dining room table," says company President Jo Buehler, 33. "Just over a year ago we moved to this house, which was built for a prominent early Utah brewer from a Frank Lloyd Wright-inspired design."

This mixture of business, design and a home setting fits Vanessa-Ann, a leader in the needlecraft industry only five years after its founding. The firm's partners, Buehler and Chairman Terrece Woodruff, 32, are innovative both in their designs and in how they handle employes.

Consider the way the house is used. Upstairs are work areas for writers, designers and artists—all women—who produce instruction books (75 at last count) on cross-stitch, stencilling, tin punch and other popular crafts. Three of the books have sold more than 100,000 copies each.

On the main floor are the executive and business offices, and playrooms for as many as a dozen children.

That the company provides child care on its premises indicates how important family is to the founders. The firm gets its name from the oldest children of Buehler and Woodruff.

Another family-oriented fringe benefit at Vanessa-Ann is flexible working hours, or flextime.

"We let the women establish their own schedules, which works very well for us," Buehler says. "One woman's husband is on the police force. She adapts her schedule to fit his, which gives them more time together. Others work around college classes as well as family and community commitments. We have people in the building around the clock."

The lone man among Vanessa-Ann's 15 employes runs a warehouse in an industrial park five miles away, where all orders are packed and shipped. He uses flextime to help his wife get their children to school on the days she works. "We would not have some of the talented people working here if it were not for flextime," Buehler says.

Buehler, who runs the company's business affairs, was introduced to Woodruff, who oversees the artistic side, by a mutual friend in 1979. Buehler had just dissolved a four-year-old partnership in a needlework store. Woodruff had recently moved to Ogden from California, where she had been designing for a company that produced needlework kits.

It seemed a natural fit, although, Buehler recalls, "Our husbands discouraged us from going into business together, since we didn't know each other. But for Terrece and me it felt right from the beginning." Each put up $5,000 to start the Vanessa-Ann Collection, and they have turned it into a multimillion-dollar company.

The on-premise child care enables both women to stay close to their families even as they run a successful business. The two Buehler children, ages 9 and 4, and the three Woodruff children, 8, 4 and 1, spend many hours at the office with a certified teacher in a well-equipped nursery between their mothers' offices. A college student makes the rounds each afternoon to pick up children at school and take them to dance and piano lessons.

The business community has accepted Vanessa-Ann after a period of skepticism. "For two women in a conservative community, getting started wasn't easy," Buehler says. "People called the office and asked for our husbands, who, incidentally, have nothing to do with the company. The bank asked that they cosign notes—at first.

"Now, our community has learned who owns and runs the Vanessa-Ann Collection."

—Nile Greenhalgh

The Best Food You Can Find in Jail

William J. Benzick admits he was a "lousy student" in high school, which may explain why he had not learned never to volunteer for anything during his four-year Navy hitch. When his submarine commander asked for someone to be the cook, deckhand Benzick stepped forward. He didn't know *au jus* from *au revoir*. But he made a tangy spaghetti that stuck to the ribs. Enter a new cook.

Last year, two decades later, Benzick, now president of Best Food Services, Inc., was given another title—Minnesota's Small Business Person of the Year.

Service, plus cooking most food the old-fashioned way—from scratch—has built Benzick's St. Paul-based company

PHOTO: SANDY MAY

William Benzick's Best Food Services, Inc., won favorable reviews serving meals to Minnesota prisoners. But the firm also operates more than 40 cafeterias.

up to annual sales of $7.8 million. It operates more than 40 cafeterias in Minnesota, most of them for businesses like banks and insurance companies. Then there are the 11 other accounts—correctional institutions.

"Our first year in business we learned the state prison at Stillwater couldn't keep a manager for its food service," Benzick recalls. "So I sent one of our people there to see about our company doing the job. The place was a disaster—inmates were being killed in and around the kitchen, and the last seven meals that had been served were Polish sausage."

Benzick got the contract, replaced 12 civilian cooks with 10 of his own and reduced the kitchen inmate help from 165 prisoners, each being paid $2 a day, to 12 inmates, drawing $2 an hour. Fewer convicts with access to knives, less bodily harm. And Polish sausage was limited to once a month.

Best Food Services has been good for Stillwater in another way. "We work on a set annual fee to cover management costs, labor, insurance, uniforms, that sort of thing," explains Benzick, "and if we spend less than anticipated we return the excess to the state."

In nine years, Benzick, 43, has given back almost $250,000.

Meanwhile, he is serving Stillwater's 800 inmates at $2.24 each per day, almost 10 percent less than the state standard. And they are getting quality food—from appetizers to desserts, with entrees of ham, turkey and the like.

"You'd be surprised at the number of compliments we get from inmates," Benzick says.

Compliments, not profits, motivate Benzick. Although he has 54 percent of the firm's stock (he gave the remainder to three partners), he draws what he calls a modest salary—$35,000.

"There are people in my company who are paid more than I am, but really, who needs a lot of money?" he asks.

After the Navy, Benzick took a job with a Chicago-based national food service company in 1962. It was his introduction to managing, buying and preparing food. He worked as a cafeteria chef manager, a district manager and a regional director.

"I hated all the traveling, and I never liked working for someone else," he says, "so in 1975 I sold my house and put $34,000 into starting up Best Food Services in my home state."

He rented an abandoned cafeteria for $300 a month in downtown St. Paul. "We did all our own cooking and baking, worked from 5 a.m. to 7 p.m. and lost $2,500 the first year," he says. "But we don't lose money any more. I've paid myself back my seed money. And not too long ago, we were offered $1.8 million for the business."

With 308 employes now serving more than 15,000 meals a day and plans to start subsidiaries in other states, Benzick has no interest in selling. "I have too many good people with families here who are dedicated to their jobs," he says. "They are the ones who should be running the business someday."

—Del Marth

When a Watch Is Not a Watch

This was the problem: A New York lawyer discovered that one of his clients—an importer of inexpensive jogging shoes—was paying import duties of up to 48 percent on those made of nylon and rubber. U.S. Customs Service officials reasoned that the cheap imports posed a competitive threat to American footwear manufacturers.

The solution was simple. The lawyer, Irving A. Mandel, found that if his client imported jogging shoes that had uppers more than half trimmed in leather, the duties would plummet to as little as 12.5 percent. The shoes could then be marketed differently and fetch a higher price.

Mandel is in the business of advising importers on how to turn U.S. customs laws to their advantage. And he is highly successful at it, sometimes saving clients millions by paying close attention to the eccentricities of the tariff schedules.

For instance, Mandel points out, if you sold imported designer jeans in the United States, you would pay a lot more in duties if the label were on the outside of the back pocket instead of under the belt. If the words on the label were stylized, rather than printed in block letters, your cost would be higher, too.

It has to do with ornamentation. If the article of clothing is ornamented, the duties go up.

Well, sometimes.

Certain ornamentation on certain gloves causes the duty to drop. There are, in fact, approximately 6,500 different items listed on the tariff schedules. There is little obvious logic governing many of the schedules, which have not been revised in more than 15 years.

Eight years ago, Mandel left his job as a Justice Department attorney to become managing partner in a law firm concentrating on his specialty—customs law. Today Mandel and Grunfeld is the nation's largest law firm in customs and trade regulation work, with offices in New York's World Trade Center and in the nine other American

New York attorney Irving A. Mandel buil law practice based on showing importers h to use U.S. customs laws to their advanta

cities where there are customs houses.

Mandel, 43, tells his clients that import duty payments can be planned in much the same way companies plan their taxes. "If proper attention is given to product design and to import transactions that are structured properly," he says, "businesses often are able to save considerable sums by taking full advantage of U.S. tariff provisions."

He says that "slight design changes might alter the category of an imported product and cause a dramatic drop in customs payments." For example, he once convinced a panel of U.S. Court of International Trade judges that digital watches should not be treated as watches under customs law. The panel agreed with his argument that watch duties are due only on moving parts, and that digitals have no moving parts. As a result more than 30 importers of digital watches got substantial rebates from the Customs Service. One of Mandel's clients received $4 million.

Later, Mandel was able to prove that since digitals were not watches under customs laws, the bands on them could not be considered watch pieces, but rather jewelry. Import duties on such bands dropped from 29 to 5 percent.

Mandel has a long list of do's and don'ts for prospective importers. Here are a few:

- Full disclosure to the Customs Service of all foreign shipping and financial arrangements at the outset is essential. Penalties for fraud are high.
- Structure each transaction in advance, including quota charges and royalty payments. Imported goods often involve complicated international financial arrangements, and there should be no surprises.
- Develop a long-term relationship in the country or countries providing shipped goods. Mandel says many of his clients establish factories in those countries so that they have ongoing dealings abroad.

Mandel says that money fluctuations abroad are one side of the importing coin. On the other are the "value fluctuations" that occur when the commodities reach the United States. The Customs Service, Mandel says, wants to establish higher values for the imports in order to obtain revenues. But the Internal Revenue Service likes to establish lower values for those same imports, so that the profits—and taxes—will be higher when the goods are sold in the United States.

"They try to tax the goods for as much as they can on both ends of the deal," says Mandel.

—Seth Kantor

Businesses Made Out of Skin Cream

Edna Hennessee seems to know exactly what is on other people's minds. When she began a speech at a conference of more than 1,000 aspiring women business owners last summer, she said, "First of all, I want to tell you I'm 65."

Her characteristic bluntness reflects a no-nonsense personality laced with warmth and humor. And she has a lot of empathy for women who want to go into business for themselves.

Hennessee has been in business 40 years, and her Lawton, Okla., company, Cosmetic Specialty Labs, pulls in between $5 million and $10 million a year. But she remembers the days during World War II when, lucky enough to own a washing machine, she did wet wash—washing clothes all night long so customers could take them home wet the next morning and hang them on their own lines to dry during the day.

The bride of a SeaBee stationed in New Guinea, she hoped to earn enough money to start a Merle Norman Cosmetic Studio, a dream of hers ever since a friend gave her a set of the company's products. She had been plagued with a bad complexion since high school, and the cosmetics cleared her skin.

It cost $1,000 to go into business with Merle Norman, and Hennessee could scrape together only $300. Nevertheless, she persuaded the company to let her have a territory. "I aggravated them to death," she says. "It had become known throughout the company that I was persistent. I finally got hold of Merle Norman's brother, who said, 'Anyone who wants to do this as badly as you do must be going to be a success.'"

A $12 bus ticket took her from Oklahoma to Merle Norman headquarters in Santa Monica, Calif., for a two-week training period. (She finished in five days.) Seeing the company's plant instilled her with another ambition: "From the day I left, my desire was to have a factory of my own."

It would take her more than 25 years. Meanwhile, she operated her studio for six years, then handled product development for Venus International, a direct marketing cosmetics company. After Venus went into Chapter 11 bankruptcy, she decided to set up her own private label firm, launching Cosmetic Specialty Labs in 1973.

Hennessee, long divorced, is now chairman of CSL, and her son, Odus, 35, is president. In addition to its 220,000-square-foot manufacturing plant, the company includes a sizable beauty salon and Dream Valley Farms, 40 greenhouses in Cache, Okla., where the aloe for CSL cosmetics is grown. In all, Hennessee employs more than 200. Though her firm has recently added lipstick and eye shadow to its products, it specializes in skin and hair care.

But Edna Hennessee is not really in the cosmetics business. She is in the business of putting other people in business.

Suppose you want to start a cosmetics firm under your own name, and you want CSL to create the products for you. A CSL staff member will be assigned as your coordinator, taking you through 38 steps to assist you in getting started—from helping you get your trade name to working with a CSL artist to come up with label designs and with a chemist to customize cosmetics for you. CSL produces 5,000 products for 1,700 customers in every state and in nine foreign countries. Many of those businesses are quite small.

PHOTO: COSMETIC SPECIALTY LABS

Edna Hennessee puts other people into business under their own labels with her Cosmetic Specialty Labs. Her son, Odus, is the Lawton, Okla., firm's president.

It can cost $5,000 or more to start a cosmetics company with custom-made products from CSL. But remembering her own struggle with Merle Norman years ago, Hennessee offers a cheaper alternative. By buying ready-made stock products and labels from CSL, a customer can go into business for as little as $500. Just the right price.

—Sharon Nelton

Restoring a Sense of Personal Service

Personal service to large numbers of consumers is a marketing dream, and computers may put it within reach. Data base marketing, thanks to precise and detailed information about a customers's buying history, allows a company or nonprofit group to market to the people it wants in the way they want.

Jones and three other Harvard Business School graduates started Epsilon in 1969 to help nonprofit groups raise money through contributions. The Burlington, Mass., firm has seen its data base grow steadily since.

Jones, Epsilon's chairman and president, says 60 to 80 percent of customers cooperate when asked details of why they shop at a particular store or give to a favorite charity.

PHOTO: RICK FRIEDMAN—BLACK STAR

Chairman Thomas O. Jones' Epsilon Data Management maintains consumer information files on more than 40 million Americans to serve its client companies.

Armed with one of the largest data bases of consumer information in the country, Thomas O. Jones' $40 million-a-year Epsilon Data Management, Inc., has a long list of large clients, from Pan American World Airways to the San Diego Zoo. Its computers hold consumer information on more than 40 million Americans.

A client can advertise effectively in the media because it knows which publications and television programs appeal to its customers. Direct mail advertising can be tailored to a customer's interests, which leads to better sales results and lower promotional costs.

And there are openings to provide better service. If a business traveler asks at a hotel about a good place for recreational running, that information can be stored. The next time the traveler checks into the hotel, or a sister hotel across the country, he can be greeted with information about running. That kind of treatment may encourage the traveler to stay at the hotel again.

The information helps Epsilon's clients target sales efforts toward the 20 percent of customers who typically generate 80 percent of a firm's business or a nonprofit group's contributions.

The whole effort is a 1980s computerized approach to restoring the sense of personal service that so often has been lost for all but the most affluent consumers.

Easier Than 1-2-3

Companies have spent millions of dollars to buy 1-2-3, the spreadsheet software for personal computers sold by Lotus Development Corporation, of Cambridge, Mass. A lot of money has also been spent on books and seminars by managers who want to use the best-selling business software but have trouble learning how to apply it.

Now a line of products has been developed to make direct applications of 1-2-3 easy. OptionWare, Inc., of Bloomfield, Conn., has introduced 56 different programs at $130 each in nine areas of management needs, such as sales and marketing.

For instance, a sales executive can put a copy of 1-2-3 in the "A" drive of his International Business Machines Corporation personal computer, or one of the IBM compatibles, and his OptionWare package—say, sales and marketing history—in the "B" drive. Then, using the commands common to all the OptionWare templates, the executive can quickly go to work.

The OptionWare people claim anyone—even those who have not used 1-2-3—can learn OptionWare in 30 minutes. Hard to believe, but a demonstration at NATION'S BUSINESS convinced skeptics.

International Dialing, Toll-Free

Companies in the United States have long offered customers the convenience of a toll-free 800 number. Now small businesses may be able to tap international markets using a similar European version. Regional stock brokerage firms in Minneapolis and San Francisco as well large corporations are among 80 or so U.S. companies using Service 800 S.A., of Nyon, Switzerland.

The Swiss company, which has a New York office, is apparently the only firm to offer toll-free dialing on a truly international basis. A shopkeeper in Paris, for instance, can place a toll-free call to a credit card company in the United States to check the validity of a customer's credit card.

Brokers, hotels and credit card companies make up Service 800's biggest markets, says Guenther Juergen, the chief executive officer. Service 800 has 400 customers using 600 lines. A customer pays about $300 a month for one line plus tolls billed at direct-dial rates.

The company has averaged 36 percent annual growth in its 10-year history, Juergen says, and expects to become profitable during the current quarter. Because Service 800 must install its electronic switching equipment in the telephone centers of government-owned postal and telephone agencies, setting up the still-expanding network of 30 countries has required long negotiations. An agreement with Japan is expected by the end of the year.

Taxes And Computers

The industry wants changes to encourage upgrading. But what should they be?

ALTHOUGH politicians have joined the chorus advising business executives to increase efficiency by automating operations, many executives in the computer industry say the federal government's tax policies do little to encourage computer use.

Computer purchases qualify for a 10 percent investment tax credit, with the balance of the cost depreciated over five years. But, says James F. Benton, executive director of the Computer Dealers and Lessors Association, the computer "is the only capital asset whose technical life is shorter than its depreciable life." As a result, companies are reluctant to upgrade equipment when they need to—often when it is two or three years old—because they are still depreciating it.

The computer industry almost unanimously agrees that more favorable tax treatment is needed to make purchases easier to afford. However, just as computer products can be a confusing maze of incompatible parts hard to fit into a functioning system, so the industry has not developed a united front to attack the issue. It cannot even agree on the best solution.

"Let's raise technology, not taxes," urges Richard Forsythe, president of Forsythe/McArthur Associates, Inc., a Skokie, Ill., firm that he says is the largest privately owned computer leasing firm in the United States.

Forsythe, as board chairman of the Computer Dealers and Lessors Association, is active in efforts to persuade key members of Congress to change tax treatment of computer purchases by reducing the depreciation period to three years from five. In exchange, Forsythe and the lessors group have offered to accept a drop in the investment tax credit to 6 percent from 10 percent.

Though a Treasury Department study of the tax revenue implications of the proposal is not expected to be completed until January, association members say the drop in the tax credit will offset the Treasury's revenue loss from a shorter depreciation period.

Because computer equipment can be expensive and become obsolete in only two or three years, many companies of all sizes prefer to lease. Lessors buy the equipment—the majority of it from the International Business Machines Corporation—and then lease it to companies. After the initial lease period, the lessors either lease the equipment again or sell it.

A faster depreciation period would be "an asset to everyone: the customer, the vendor, the manufacturer," says Charles Greco, director of financial services at International Data Corporation, a Framingham, Mass., industry analyst firm.

THE LESSORS' tax plan—to treat computers like automobiles bought for business use—is clearly designed to encourage businesses to take advantage of the shorter depreciation period by upgrading their automation equipment more frequently. The faster depreciation schedule, Greco says, would also stimulate investment in leasing companies by outside firms whose funds would be used to buy equipment to be leased to customers.

Those factors would provide a major boost to their business, which is already projected to total about $8 billion in 1984 and maintain a 30 percent annual growth rate over the next five years.

"The key to this," Benton says, "is going to be finding forward-thinking legislators. Congress really doesn't want to hurt us."

The proposal is expected to be examined by a subcommittee of the House Ways and Means Committee in 1985, but lobbying efforts have been sporadic because computer lessors, like most people in the computer industry, have not yet gained Washington expertise. Robert Gulko, president of Unicom Computer Corporation in Sausalito, Calif., is typical of the lobbying lessors when he confesses, "My experience in dealing with Washington is zero."

A group with more lobbying experience, the Computer and Business Equipment Manufacturers Association, is actively backing efforts to make permanent the tax credit for research and development—a tax break for all business that is especially important to computer companies because it encourages the expensive research and development essential to producing more powerful machines.

"The computer people are viewed as the lead advocates of the research and development credit," says a Ways and Means staff member.

The credit, due to expire at the end of 1985, applies to certain research and development that is already tax deductible. A company determining its 1984 R&D credit would average its R&D costs for 1981, 1982 and 1983 and subtract that average from its 1984 R&D cost. The tax credit would be 25 percent of the difference. Extension of the R&D credit in some form is expected to be recommended by Ways and Means, according to Ted Heydinger, vice president of the manufacturers' trade group.

IBM, the computer industry Goliath, supports the most favorable possible tax treatment—first-year expensing of the purchase price of computers—but no one considers such a dramatic change likely.

Part of the computer industry's difficulty in lobbying is that different parts of the industry—for instance, the manufacturers and lessors—do not coordinate strategies. A chorus of identical requests, rather than conflicting voices, is more easily heard on Capitol Hill. ◻

—Mike Lewis

Costa Rica

Fertile for Investment

WHAT FRUIT is more fruitful than the coconut? Hundreds of products on American supermarket shelves include coconut among their ingredients, as do scores of nonfood products, ranging from car mats to explosives, from varnish to sun tan oil.

Coconut oil is the prime oil of the food processing industry, and it is used extensively in soaps, cosmetics and pharmaceuticals. Some 500,000 tons of coconut oil are imported into the United States annually, at prices that have climbed from 27 to 55 cents a pound over the past five years.

Demand for coconut products has been outstripping growth in supply.

Increasing numbers of coconut palms are being planted in Costa Rica, a Central American democracy that encourages private investment. The coconut is one of several fruits that offer "exciting" possibilities there for foreigners interested in agribusiness investment, according to Steven Wroe, an American consultant for the Consorcio Economico Legal, which markets Costa Rican investment opportunities abroad.

Wroe, who lives in Costa Rica, notes U.S. investors' "production costs are payable in soft currency" (the Costa Rican colon) while "profits accumulate tax-free in hard currency" (the dollar).

Costa Rica offers U.S. agribusiness investors numerous attractions, starting with the benefits of a free society and favorable tax legislation. Foreign business people give high marks to the country's labor force. There are unusually fertile soils, and variations in climate permit cultivation of a variety of crops. Also, there are first-class communications.

The national telephone system extends through rural as well as urban areas. Costa Rica has 11 telephones per 100 inhabitants—one of the highest ratios in Latin America. There is international direct dialing, and the Instituto Costarricense de Electricidad, the company that runs the telephone system, has a Standard A satellite earth station called Tarbaca that facilitates calls. Telegram, telex and international facsimile service also are available, and international communication between computers can be established.

Principal Costa Rican agricultural exports traditionally have been coffee, bananas, sugar and meat. Attention is now focusing on nontraditional exports.

One is the coconut. Others include the macadamia nut and "the queen of spices," cardamom. The Consorcio Economico Legal is organizing a "plantation trust" to grow and market macadamias and cardamom. Individual investors will participate through ownership of acreage and have the option of Consorcio management under contract.

The macadamia nut has had phenomenal U.S. market acceptance in recent years. Cardamom so far is not as well-

known in the United States, but wholesale prices have climbed from $3.50 a pound to $7 since 1980 in Costa Rica. In the Middle East, the price is $15.

A number of special tax advantages—investors might wish to consult with the Consorcio—apply to investments in non-traditional export items.

The dramatic possibilities of agribusiness investment in Costa Rica are demonstrated by an enterprise in the northeastern section of the country. Cocotales de Costa Rica, S.A. (Spanish for Costa Rican Coconut Groves, Inc.) is developing a coconut palm plantation under conditions—soil, temperature, rainfall—that are optimal.

It has 9,000 acres available for development. The firm offers individual investors the chance to participate through purchase of coconut groves of about 12.5 acres, with 2,000 trees per grove. Such groves have road access and are fully surveyed and subdivided. Each title—free of encumbrances—is registered in the individual owner's name.

At the grove owner's option, the company handles maintenance, harvesting and marketing on a contractual basis, in return for modest cash payments based on estimates of future production.

Cocotales de Costa Rica, S.A. also accepts joint venture arrangements for operation of larger tracts—a minimum of 250 acres.

So far, 1,000 acres have been planted in coconut palms of the Golden Malaysian variety, a hybrid noted for quick maturity, high yields and exceptional resistance to disease.

With an eye to export markets, the company plans to develop and operate a plant to produce coconut oil and related products, including a byproduct known as copra cake that is used as a livestock feed additive. In addition, the company plans to produce coco flour, which can substitute for wheat flour.

The company gives this picture of potential profit for investors:

Based on the level of production of the Golden Malaysian coconut in Costa Rica, and conservatively estimating the wholesale price for coconuts in industrial bulk purchases, a coconut grove can pay back its initial costs in the first two or three years of full production and maintain that extraordinary rate of return for decades thereafter.

Cocotales de Costa Rica offers opportunities to invest in groves like this.

Where I Stand

Key Washington decision makers will be informed of your views on these important business issues.

1 Business Role Beyond Bottom Line?

In a capitalist economy companies seek to earn profits for their owners—in corporations, the shareholders. But many U.S. corporations give to charity: an estimated $3 billion in 1983. Other companies want all eyes focused on the bottom line: Doing what is good for earnings per share is their sole aim. These firms say a company's role is to create jobs, not contribute to charities. Some shareholders agree. Should companies contribute to charitable organizations?

2 Taxes On Employe Benefits?

Some members of Congress have proposed removing tax advantages for employe benefits including life insurance and health insurance reimbursements. These advantages, the argument goes, erode the tax base. Defenders of the system say employe benefits provide economic security that would otherwise require government programs. They add that charges of inequities can be resolved. Should Congress remove tax advantages for employe benefits?

3 Employes Working At Home?

Increased emphasis on productivity has encouraged businesses to streamline office procedures. Many offices may be smaller as more companies join a trend to permit employes to work at home. Such employes often communicate by telephone lines from computers furnished by their employers. Some companies say productivity rises with the elimination of commuting; skeptics argue that distant workers are hard to supervise. Is work at home worth trying in your business?

Respond to the poll with the attached postage-paid card. Letters to the editor on these issues are welcome.

Results on Boycott, Tuition Credits, Middle East

More than 2,800 readers responded to the questions in the October issue's Where I Stand poll. Results of each monthly poll go to appropriate decision makers in the White House, Congress and the regulatory agencies.

	Yes	No	Undecided
1 Should countries boycotting future Olympics be penalized?	57.7%	33.8%	8.5%
2 Should Congress authorize tuition tax credits?	60.4	36.3	3.3
3 Should the United States guarantee open shipping lanes?	35.8	49.8	14.4

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Orbis: A Vision Of Restoring Eyesight

PROJECT ORBIS, an American teaching hospital in a former airliner, will fly from Upper Volta early this month for a brief stop in Saudi Arabia and then a stay of two weeks on the island of Malta.

Orbis is the Latin for eye, and Project Orbis is dedicated to spreading the benefits of ophthalmological science. Patients who come to the ultramodern operating room in the big DC-8 are eye-disease sufferers from each host country; the students are local eye surgeons who watch, listen and contribute their own knowledge.

This remarkable exercise in international scientific cooperation was started almost three years ago by American doctors and business people and is supported today by corporations, foundations and individuals, with a seed grant from the State Department.

The plane, donated by United Airlines, is flown from place to place by a rotating corps of eight retired pilots from the Flying Tigers air cargo line who volunteer their services. The staff doctors, also volunteers, come from several countries, but most are American. They usually serve a week at a time, some for two weeks. United Airlines provides free travel for Orbis doctors and crew in the United States, but they must pay for overseas flights to and from the hospital plane.

Since its first flight in March, 1982, Orbis has visited 44 cities in 33 countries. Its surgeons have performed 2,500 eye operations and returned sight to hundreds of patients. Orbis has taught 2,200 doctors, 90 percent of whom have learned new operating techniques from the 160 staff ophthalmologists.

Before Upper Volta, the plane visited Botswana, Kenya and Senegal. After a Christmas break at its base in New York, it will go to Pakistan, Bangladesh, Thailand, China (two cities), Taiwan and Nepal. Then it will return to the Middle East.

The traveling hospital is the brainchild of Dr. David Paton, a Houston eye surgeon. A member of the Baylor College of Medicine faculty, Paton traveled frequently to other countries to perform operations and teach.

"He found he was learning as much as he taught," says Oliver Foot, Orbis' executive director, "and he formed the idea of a mobile unit that would fly from country to country operating on patients to demonstrate new skills.

"In the last 15 years, ophthalmology has exploded due to the introduction of microsurgery. New skills are developing all the time, and there's no way to learn them except by doing them."

Paton's idea was taken up by three businessmen—the late Juan Trippe, founder of Pan American Airways; Leonard McCollum, former chairman of Continental Oil Company; and A.L. Ueltschi, president of Flight Safety International. McCollum and Ueltschi are cochairmen of Orbis; Paton is medical director.

Ueltschi, whose company uses high tech flight simulators to train airline pilots, persuaded United Airlines to donate the old DC-8.

The next challenge for the founders was to design and install in the plane the sophisticated equipment necessary to transform the plane into a state-of-the-art eye hospital.

Besides the operating room, with anesthetic, cardiac and other equipment, they put in patient preparation and recovery areas, an examination room and a classroom. They wired a complete audiovisual system for relaying sound and pictures of operations to the classroom (or, if needed, to larger halls outside the plane). They even installed a television camera in the surgical microscope.

Much of the equipment was donated by manufacturers. But innovative adaptations had to be made to install it in the plane. The surgical microscope is bolted to the landing gear and wing structure to limit vibration. For the same reason, the twin electric generators can be lowered to an airport's surface when in use.

Orbis carries an eight-person medical staff, an audiovisual producer, a flight crew of four and an engineering troubleshooter to maintain all the systems.

Foot says Orbis still spends more time than it would like in seeking corporate donations to keep it going. "If I could just get in to see the CEOs of these large international corporations, I'm sure more of them would want to help this wonderful work," he says. Orbis' annual budget is about $4 million.

THROUGH ITS high visibility, Orbis has increased world awareness of the problem of blindness. In Peru, the President came on board to see an operation on an 11-year-old Peruvian girl. Peru then had a law forbidding corneal or other organ transplants. Two weeks later, the President signed a new law permitting transplants. In other countries, Orbis' publicity has led to hospitals' getting government funds to buy needed surgical equipment.

There are 42 million blind persons in the world and 500 million with diseases of the eye. It is estimated that two thirds of the world's blindness could be eliminated with the dissemination of available knowledge, skills and resources. Project Orbis is doing its best to help achieve that goal.

—Harry Bacas

Ophthalmologists perform eye surgery in the operating room of the Orbis airplane.

PHOTO: FRED WARD—BLACK STAR

When the Wrong Time Was the Right Time

A short-term obstacle didn't keep Jack Rentschler from making the most of a long-term opportunity.

By Frederic Hron


PHOTOS: DEAN CURTIS

Truck stop owner Jack Rentschler (right) believes his business should have a friendly atmosphere. He contributes to the friendliness himself by stopping frequently for chats with customers.

JACK RENTSCHLER had a promising career ahead of him with Standard Oil of Indiana in 1973. Starting as a marketing trainee the day after graduating from college, he had risen in 18 years to district manager for Standard's South Dakota-southern Minnesota region.

"I liked my job," he says. "I liked the people I worked with."

The times were hardly promising for going into business for himself. It was the dawn of one of the two longest recessions since the days of the Great Depression.

But go into business he did, even though the business was one whose outlook was clouded by much more than recession. The Arab oil embargo was on, and the business was a Standard truck stop that he leased in Sioux Falls, S.D.

FREDERIC HRON *is business editor of the Sioux Falls, S.D.,* Argus Leader.

Fuel is normally the biggest source of a truck stop's revenues. Rentschler's supply was threatened by embargo-spawned shortages.

However, Rentschler wanted to settle down. His career with Standard had kept him and his family—wife Joyce, five daughters and two sons—on the move. And, he says, he looked on the availability of the truck stop "as a long-term opportunity. If I passed it up, another opportunity might not present itself in the Sioux Falls area, where I wanted to stay."

His decision has the Rentschler mark: a patient, almost plodding analysis of a business opportunity, then an investment decision based on long-term prospects.

Those recession days were difficult even for veteran business people, and Rentschler's experience was more harrowing than most. He recalls: "The first 60 days in business I was undergoing the shock of going from employe to independent business person, of realizing that I was now completely on my own. It was not easy. And during the same time, I was held up at gunpoint, and we were beginning to be restricted in the amount of fuel we had to sell to our customers. It was a rocky start."

Rentschler scrambled to buy fuel to supplement his allocation from Standard. His affable manner and 18 years in the gasoline business paid dividends. "A lot of people were real nice to me," he says.

With enough fuel to keep truckers from passing him by, Rentschler made profits during a difficult period and built customer relationships that stood him in good stead in the years that followed.

That truck stop—Rentschler's Standard Truck Plaza on Interstate 90 not far from I-90's junction with Interstate 29—turned out to be the first of a string of successes. Rentschler now has a hand in six businesses in three states, five related to the transportation and travel industries.

FRIENDS, BUSINESS acquaintances and partners say his success was predictable. Sam Van Sickle, marketing vice president of Amoco Oil Company, Standard's marketing and refining subsidiary, was a district manager in Evansville, Ind., when Standard sent Rentschler to be his sales manager.

Van Sickle says Rentschler's intelligence and creativity made him a leader wherever he was stationed by Standard. When Rentschler left Standard, Van Sickle was sad to see him go. "He would have risen to higher levels in the company," Van Sickle says.

Rentschler branched out from the truck stop business in 1975, teaming up

with Wendell Holcomb, owner of a Sioux Falls truck dealership, and another friend to open a Freightliner & White semitrailer truck dealership in Indianapolis.

Three years later, he and a partner built a restaurant and service station in Jackson, Minn., on I-90 two hours east of his Sioux Falls base. (The partner runs the restaurant; the service station is leased out.) He also leased a truck stop in Minot, N.D.

The Minot venture is the only blemish on Rentschler's business record. After two years of operation, he sold it when he realized it would never develop a sales volume big enough to allow profitable absentee management. "I learned from that experience what not to do to expand," he says.

By 1980 Rentschler was back on track. He and Holcomb bought out the third partner in the Indianapolis dealership. He also began to enhance his Sioux Falls truck stop. A partnership he formed built an 86-unit Thrifty Scot budget motel, and he followed that up in 1982 with Jack's Grain Bin, a restaurant and bar. The two sit beside his truck plaza, giving him about 15 acres of adjoining businesses devoted to transportation and travel.

THE TRUCK PLAZA has paved parking for more than 125 rigs, a service station that, in addition to handling autos, has five islands set aside for fueling trucks, and a two-story building that houses a small store and a diner-like eatery on the first floor. A lounge for truckers and Rentschler's office are on the second.

His operations are not sophisticated, Rentschler says. "We kind of fly by the seat of our pants," he says, though he has a business plan that he updates yearly. He likes to submit ideas to an incubation period, hatching them at what seems the most opportune time.

Rentschler has not rushed into business ventures. He prefers to let one business get established before he goes on to another, and he builds a financial cushion before investing in a new venture. "I do like a certain comfort level," he says, but adds upon reflection: "On the other hand, if you look at some of the businesses I'm in and the money I've borrowed in the last seven or eight years, you may think I don't react the way I think I do."

A trucker gets a sympathetic ear from the owner in a restaurant section where booths have phones that enable busy drivers to make calls while eating.

As a business opportunity guideline Rentschler uses what he calls his snowstorm test: "I laugh when I say this [and he does], but I've kind of made up my mind that I don't make any major decisions about expansion in the summertime. Now this really is my philosophy. I try to make any decision about anything major that I'm going to do in January or February. If it looks good then, it's a good shot."

His laughs turn to near-tearful guffaws, and Rentschler adds: "Boy, if you were here on the Fourth of July, you'd think, 'Gosh, what a great going place this is.' But if you're out here when the wind is blowing 50 miles an hour with snow where you can't see and not a customer in sight, why, that's a good time to make a decision."

Of all of Rentschler's ventures, the Sioux Falls truck plaza—he bought the lease with 18 years' savings in the Standard Oil stock plan—has been the most profitable.

It is a bustling place night and day, hosting an average of 2,400 people per 24-hour period. Not only is it a center for truckers and a haven for other travelers—particularly in nasty weather—but it is a gathering spot for people from rural areas north of Sioux Falls, who constantly drop in at the restaurants for food, drink and chats with Rentschler.

Rentschler is closemouthed about profits, but sales have increased fourfold since he took over the truck stop. The staff has almost doubled. It ranges from 75 to 85, depending on the season.

A WALK THROUGH the complex with Rentschler illustrates his concern for its atmosphere: He stops several times to pick up litter in the parking lot and adjusts a curtain in the truckers' lounge.

The truck stop eatery, which seats 130 at a counter and bare tables, has a section reserved for working truckers. Booths in that section have their own phones so drivers can transact business or call home while catching a bite to eat. Anchoring one corner of the store is a television screen that lists trucking jobs available—for the driver who might be heading home with an empty trailer.

Though the store is small, it stocks all the accoutrements of the road: blue jeans and coveralls; supplies for trucks; gadgets to make life behind the wheel more comfortable; and gifts for a child, wife or girl friend waiting back home.

Upstairs in the truckers' lounge, a color television is on around the clock. At any given time, dozens of trucks are parked out back. Drivers can be found in the truck stop eatery, the lounge, Jack's Grain Bin and the Thrifty Scot. The complex serves all the needs of the over-the-road truckdriver.

Rentschler believes his ability to satisfy those needs and do so in a pleasant atmosphere have made his truck stop a success. The plaza *is* a friendly place. Rentschler, who wears a perpetual grin, is a friendly man.

"One of our constant reminders to ourselves is that our trucker customers are away from home a week, two weeks, three weeks, six weeks in the trucking business," he says. "My feeling is that if we can cause them to smile a little, to feel a little bit better when they're here, there's a good chance they'll stop back and see us."

Rentschler can strike up a conversation with almost anyone, and friends marvel at his ability to remember names. He practices those talents daily in his business. Often he takes the time to find out what is on customers' minds, help with a sale or answer a question, no matter how trivial.

He believes his small town back-

ground—he was born in Center Point, Ind., 53 years ago—and the years he spent moving from town to town for Standard helped him develop his friendly nature. When he was traveling, Rentschler found that he had to take the initiative to make friends. In many towns, the locals tended not to embrace newcomers. If you wanted to avoid loneliness, he says, you had to force the making of acquaintances.

Partner Holcomb has another explanation for Rentschler's friendliness. "Jack has a big ego," he says. "But he's not an egotist. He has a lot of like for himself." Holcomb believes that a person has to like himself, as Rentschler does, before he can like others.

When Rentschler is not with customers or working behind the desk in his small, austere office, he is likely to be involved in some public service activity. Rentschler says he devotes about 10 percent of his time to civic affairs. He has served as president of the Sioux Falls and South Dakota chambers of commerce. He currently is a member of the U.S. Chamber of Commerce board of directors, serving on its food and agriculture committee.

As second vice chairman of the National Association of Truck Stop Operators, he is in line to become the organization's top elected official. He serves as vice chairman of the Sioux Falls Industrial Development Foundation and is a nine-year member and former chairman of the board of the Federal Home Loan Bank of Des Moines.

CIVIC INVOLVEMENT is a priority for Rentschler, and he treats it with the intensity of personal business matters. "I've found," says Holcomb, "that if he feels a cause is worthy, he'll take as much of his personal time and money as necessary to further that cause."

David Stenseth, president of the industrial development foundation, says Rentschler is a valued board member because he has strong convictions and is not afraid to share his views. He gets discussions started, yet when the consensus goes against him, he is willing to accept the decision, Stenseth says.

Active in Republican Party politics, Rentschler ran for county commissioner this year and won. Political involvement runs in his family. His father was a county commissioner in Indiana, and his mother, two brothers and a sister are politically active, too.

Van Sickle believes the temperament that has helped make Rentschler a successful businessman will help him in politics. Says the Amoco executive: "Jack is pretty levelheaded. He might be madder than a hornet underneath, but it takes a lot to get him riled." ☐

Taking the Case To the People

"We're going to continue what we've been doing and, if need be, we'll take our case to the people." President Reagan thus set forth his strategy for his second term, a strategy based on the realities of the election returns.

One of those realities is his own spectacular victory. He properly sees his historic triumph as a mandate from voters to continue and expand the policies that formed the record on which he ran. These policies call for less government, continuing opposition to tax increases, further spending restraint and a U.S. ability to operate from a position of strength in the world arena.

Another reality is the divided Congress the President will face over the next two years at least. The House of Representatives will continue under Democratic control, with the administration short of even an ideological majority. The Republican majority in the Senate has been cut from 10 to 6 seats.

Thus, the President sees the possibility that his second-term initiatives will be blocked on Capitol Hill. In such cases, he is saying, he will appeal to the people for help.

Voters will be asked to tell their members of Congress to back Ronald Reagan or lose support when they next run for re-election. That will be powerful pressure, indeed, given the President's national standing as demonstrated by the election results.

Legislators tempted to oppose him on partisan or parochial grounds might want to remember that, while he will not again be running for election, they will be.

Grass-Roots Pressure For a Lid on Spending

The most far-reaching of President Reagan's domestic proposals in his new term will deal with ways to reduce, and eventually eliminate, the federal deficit.

That one issue is linked to virtually all other major policy issues, including tax reform and spending restraint, defense and foreign policy, and the role government should play in society. The President made it clear throughout his re-election campaign that his formula for cutting down red-ink spending was based on spending curbs and policies to stimulate economic growth. He specifically rejected tax increases as a solution for deficits.

Several business coalitions are already at work in support of just such an approach to the deficit problem. One coalition of major, Washington-based business organizations is drafting a detailed spending reduction plan. Both the administration and Congress could use it for an early start in that area. Another group with heavy business participation is ready to oppose any attempt to look to higher taxes as a deficit cure.

At the proper strategic points, business men and women across the country will be asked to provide the grass-roots support that could be critical to the goal of eliminating deficits without tax increases.

Any time and effort that individual business people spend in such a cause would be a major investment in future economic health.

A Balanced View Of The Trade Deficit

U.S. trade with foreign countries is being discussed almost exclusively these days in terms of the record trade deficit looming for 1984. Advocates of protectionism are using the imbalance as an argument for their cause.

But there are other, more positive aspects of the trade picture. This country still has a larger share of exports within the free world than any other nation. And foreign firms are paying U.S. companies ever-increasing amounts of royalties for state-of-the art technology.

The trade accounts have been skewed by a strong dollar that encourages imports and curbs exports. But the dollar's value will lessen abroad as a declining federal deficit (see above) reduces interest rates—and therefore demand for dollars by foreign investors eager to buy U.S. Treasury securities.

At the same time, the productivity, innovation and other forces that have kept America the leader in world trade will again be able to work unhampered by the restraints that an abnormally strong dollar imposes. ◻